

Convergence – ERDF

Europe and Wales: Investing in your future

West Wales and the Valleys
Convergence

Operational Programme
European Regional
Development Fund

2007-2013

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INTRODUCTION

This Convergence Operational Programme sets out the Welsh Assembly Government's strategy and priorities for the economic, social and environmental regeneration of West Wales and the Valleys over the period 2007–2013 with the support of the European Regional Development Fund (ERDF). It is augmented by a separate but complementary European Social Fund (ESF) Convergence Programme. Acting together, these programmes will have a catalytic affect in extending and enhancing the Welsh Assembly Government's own strong commitments to the Lisbon and Gothenburg reform agendas.

The Convergence Operational Programme has been developed in the context of the Integrated Guidelines for Growth and Jobs (2005-2008), and the Community Strategic Guidelines (2007-2013) which set out cohesion policy objectives at EU level. The programme complements the strategic priorities and objectives set out in the UK National Strategic Reference Framework and directly contributes to addressing the challenges set out in the UK National Reform Programme for Jobs and Growth, with the aim of delivering long-term sustainable growth, high employment and a fair and inclusive society.

This ERDF Convergence Programme will promote a close alignment between EU and national policies for jobs and growth. The Wales economic development strategy *Wales: a Vibrant Economy* points the way towards a dynamic economy delivering strong and sustainable economic growth by providing opportunities for all. It has a clear focus on the Lisbon objectives of improving economic growth and providing additional jobs for the people of Wales, taking forward priorities in *Wales: A Better Country*. The strategy identifies the complementary relationship between economic, social and environmental policies. It is supported by our *Environmental Strategy for Wales* with its vision of a distinctive Welsh environment thriving and contributing to the economic and social well being and health of all of the people of Wales. As with the Lisbon agenda there is a strong complementary relationship between economic and environmental policies in the vision and strategic priorities of the Welsh Assembly Government.

These considerations lead to an Operational Programme which will:

- Build the knowledge based economy;
- Strengthen the economy through stimulating enterprise and business development;
- Equip the region with the physical infrastructure necessary for the development of a modern competitive economy and to stimulate agglomeration effects;
- Promote sustainable business growth and new business opportunities in relation to environmental challenges and opportunities; and

- Provide integrated regeneration solutions necessary to support the development of vibrant local economies.

The ERDF Convergence Operational Programme builds on the extensive consultation that has taken place with a wide range of partners and stakeholders over recent months to shape the direction of the new European Structural Funds programme.

The document comprises seven chapters. The chapters are:

- Chapter 1: the Executive summary, explaining why West Wales and the Valleys qualifies for continuing structural funds support and providing an overview of the programme;
- Chapter 2: the Analysis, which summarises the region's current strengths, weaknesses and needs, as well as the opportunities, priorities and challenges ahead;
- Chapter 3: the Strategy, which sets out the strategic objectives to overcome the weaknesses and to exploit the opportunities identified in the Analysis;
- Chapter 4: the Priorities and Themes which provide details of the programme's ERDF priorities, indicators and targets as identified in the Strategy;
- Chapter 5: the Cross-Cutting Themes, which sets out the objectives and the strategy for ensuring that the commitment to Equal Opportunities and Environmental Sustainability is mainstreamed across all aspects of the programme;
- Chapter 6: Implementing Provisions, which sets out the management arrangements and the principles which will guide delivery, including partnership arrangements and the Strategic Framework approach; and
- Chapter 7: Financial Allocations, which explains how resources will be allocated across the various priorities.

CHAPTER 1 EXECUTIVE SUMMARY

Introduction

1.1 The agreement of the European Council and the European Parliament on the EU budget for 2007-2013 means that West Wales and the Valleys will receive “Convergence” funding – the highest level of support under the next round of Structural Funds. West Wales and the Valleys qualifies for this support because at the time of the EU budget agreement in December 2005, the region’s average Gross Domestic Product (GDP) per head was just below 75% of the European GDP average – the qualification limit.

1.2 This provides West Wales and the Valleys with a major opportunity to build on the very significant progress made under the Objective 1 programme 2000-2006 and to complete the transformation from a region suffering protracted economic problems into a strong and sustainable economy.

1.3 The region will receive total Community funding of €2.08 billion to support ERDF and ESF Convergence programmes worth over €4 billion. The ERDF Convergence programme will receive Community funding of €1.25 billion (60% of the total). When this is combined with national public and private funding, the programme will provide over €2.5 billion to boost growth and jobs over the period 2007-2013.

Vision

1.4 Our vision for West Wales and the Valleys is of a vibrant, entrepreneurial region at the cutting edge of sustainable economic development, with its people living in prosperous, strong, healthy, safe, and where relevant, bilingual communities within an ever improving natural environment.

1.5 Our ambition is for West Wales and the Valleys to be at the forefront of the EU’s drive to be a beacon of economic, social and environmental progress to the rest of the world. West Wales and the Valleys will be a world-class exemplar of a region of 1.9 million people at the geographical periphery of Europe, but thriving in competitive world markets and providing a world-class environment in which people want to live, work and invest.

Analysis

1.6 The analysis shows that the economy of West Wales and the Valleys has improved noticeably in recent years, continuing its transformation from a long period of economic change that saw the decline and disappearance of traditional industries. Over recent years, the region has experienced a considerable upturn in labour market conditions, with increasing employment and falling unemployment, as well as growth in earnings.

1.7 However, there is still much to be done to reduce economic disparities between West Wales and the Valleys and the rest of Wales and the UK and to achieve full convergence with other parts of the EU. The region's relatively low GDP per head is attributable primarily to a higher proportion of the working age population not being in employment and lower value-added per worker, reflecting in part the region's industrial composition. A further factor is the inability to benefit from strong agglomeration effects, due to Welsh towns and cities being relatively small and much of the region being sparsely populated and distant from major centres.

1.8 Other benchmarks of competitiveness indicate a need to further increase levels of R&D, ICT utilisation and entrepreneurship in order to continue the shift towards the knowledge economy, and the need to address some of the inadequacies in infrastructure to support this, including transport and business sites. Creating an attractive and sustainable environment requires us to address the challenges of climate change, including reducing the regions dependency on traditional sources of energy, and realise the sustainable economic potential of the region's natural environment.

1.9 Despite improvements in the labour market, the employment rate in the region remains below both Welsh and UK averages, due to higher levels of economic inactivity. Helping more people into sustainable employment and improving the skills of the working age population is a continuing challenge and is addressed in the complementary ESF Convergence programme for West Wales and the Valleys.

Policy Context

1.10 The new Structural Fund programme for 2007-2013 will have a stronger focus on the Lisbon and Gothenburg strategies for growth, jobs and sustainable development as set out in the *Community Strategic Guidelines for Cohesion* approved by Member States in 2006. The objectives and priorities of the West Wales and the Valleys Convergence programme are consistent with the Lisbon and Gothenburg strategies and have been developed in the context of the UK National Strategic Reference Framework (NSRF) which explains how the Structural Funds will contribute to the overall UK National Reform Programme (NRP) for growth and jobs.

1.11 To maximise the impact from the Structural Funds, the Convergence programme will also be aligned with relevant Welsh Assembly Government policies for delivering sustainable growth and jobs. These include:

- *Wales: A Better Country* – the Welsh Assembly Government's broader strategic policy agenda;
- *Wales: A Vibrant Economy* – the economic development strategy;
- *The Wales Spatial Plan*;
- *The Wales Sustainable Development Scheme—Starting to Live Differently*;
- *The Environment Strategy for Wales*;
- and from 2010 *Economic Renewal: a New Direction*.

Strategy

1.12 The overall aim of the Convergence programme is:

To make West Wales and the Valleys a vibrant, entrepreneurial region at the cutting edge of sustainable development.

1.13 The key drivers to achieving this with the ERDF programme are:

(a) Helping businesses to move continually up the value chain and increase the value added per job, thereby raising productivity and earnings; and

(b) Creating an attractive environment for people in which to live and work and invest, including through the regeneration of the region's poorest communities.

1.14 The success of the Programme will be informed by tracking progress against a range of economic indicators, notably employment, earnings and GVA, in absolute terms and relative to other parts of the UK and EU. Indicators and targets for individual priorities will also be closely monitored and will be grossed up to provide programme level targets. The programme will also be subject to evaluation.

Priorities

1.15 The programme will be implemented through a simplified structure comprising five main Priorities plus a Technical Assistance Priority.

Priority 1: Building the knowledge based economy

1.16 *Objective* – To improve knowledge and encourage innovation by fostering the commercial exploitation and take-up of research and development, innovation and technology and increasing access to and take up of ICT.

Priority 2: Improving business competitiveness

1.17 *Objective* – To strengthen the economy by increasing the size and widening the range of business stock and tackling market failures in relation to business advice, information and finance.

Priority 3: Developing the strategic infrastructure for a modern economy

1.18 *Objective* – To equip the region with the physical infrastructure necessary for the development of a modern competitive economy, and to promote agglomeration effects and sustainable integrated urban regeneration.

Priority 4: Creating an attractive business environment

1.19 *Objective* – To promote sustainable business growth and new business opportunities in relation to environmental challenges and opportunities.

Priority 5: Building sustainable communities

1.20 *Objective* – To support integrated approaches to regeneration which will benefit the region's most deprived communities and support the development of vibrant local economies.

1.21 The cross-cutting themes of Equal Opportunities and Environmental Sustainability will be fully integrated into these priorities. The programme will also support Innovative Actions and Trans-national and Inter-regional Co-operation. A separate Technical Assistance priority (Priority 6) will ensure the efficient and effective management of the Programme.

Financial Allocation

1.22 70% of ERDF Convergence resources will be targeted at those categories of investment which will contribute most to achieving the Lisbon objectives for growth and jobs as defined in Article 9 and Annex IV of Regulation (EC) 1083/2006. This means more investment in areas such as research and development, innovation, entrepreneurship, the information society, environmentally friendly products and processes, renewable energy and some areas of transport. At the same time, it is recognised that investments linked to urban and rural regeneration, community economic development, environmental and risk prevention, waste management, tourism and culture remain important drivers for growth and jobs, even though they will not contribute directly to the Lisbon earmarking targets.

1.23 Detailed financial allocations by Priority and indicative allocations by theme are set out in the main Programme document.

Implementation

1.24 The programme has been developed in partnership and will also be implemented in partnership. A single Programme Monitoring Committee (PMC) will oversee the implementation of the Convergence and Regional Competitiveness and Employment programmes in Wales. Strategic Frameworks will strengthen programme delivery and ensure projects are focused on key headline objectives and targets. There will also be a stronger emphasis on regional collaboration in the development of strategies and projects in the context of the Wales Spatial Plan.

CHAPTER 2 SUMMARY ANALYSIS OF WEST WALES AND THE VALLEYS

AREA OVERVIEW

1.25 West Wales and the Valleys covers an area of 1.24 million hectares (around 12,400 km²) with approximately 1,150 km of coastline. Some 80% of the area is designated as Less Favourable Areas, mainly mountainous and upland areas. Some 1.86 million (64% of the total population of Wales) live in the region.

1.26 The local authority areas that make up West Wales and the Valleys are diverse in nature. The South Wales Valleys, with approximately 60% of the population of the region, are predominately urban with a high representation of production industries. The Western and Northern areas are rural in nature with a number of towns and small villages where the economic is largely dependant on traditional agriculture and service sector industries with a small representation in production industries¹.

1.27 This chapter provides an overview of the socio, demographic, economic and environmental conditions across West Wales and the Valleys, and highlight areas where the region varies from Wales, the UK and the European Union. (*The full analysis is to be found at Annex A*).

1.28 The themes of the Lisbon agenda run through the analysis with attention given to, *inter alia*, research and development, innovation and education and skills in strengthening EU competitiveness and sustainable growth while ensuring social and territorial cohesion.

1.29 The following map (Figure 1) shows the eligible Programme area for Wales.

¹ OFFICE FOR NATIONAL STATISTICS (2006) Workplace employment in Wales by industry, 2001 to 2004 <http://new.wales.gov.uk/docrepos/40382/40382313/403824/econ-2006/sb45-2006.pdf?lang=en>

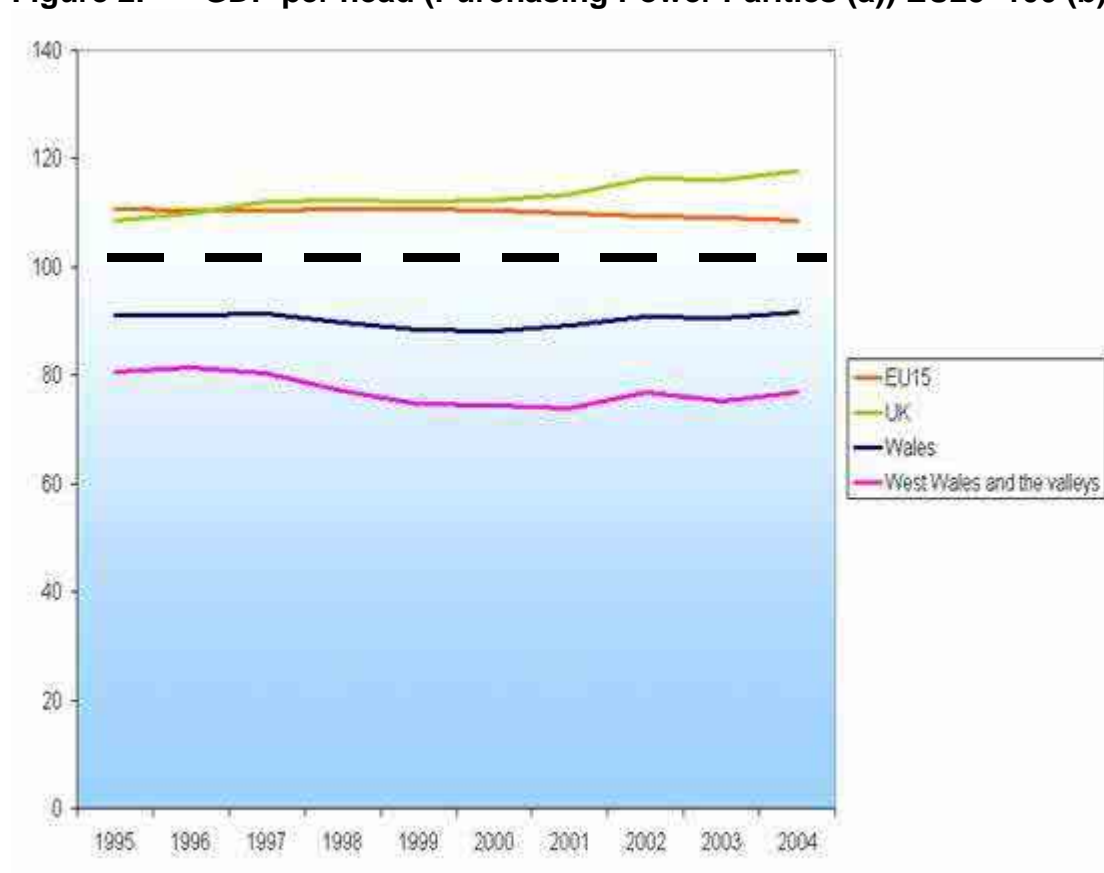
Figure 1. Map of the West Wales and the Valleys Convergence Programmes area



1.30 Central to economic convergence is raising GDP per head across Member States and Regions of the European Union. shows GDP per head across West Wales and the Valleys is below the average for the 25 countries of the European Union. The latest data (2004) shows that GDP per head is 77% of the average for the 25 countries of the European Union. Compared to Wales

and the UK as a whole GDP per head is approximately 84% of the Welsh average and 65% of the UK average respectively.

Figure 2. GDP per head (Purchasing Power Parities (a)) EU25=100 (b)



(a) Purchasing Power Parities (PPPs) are currency conversion rates that both convert to a common currency and equalise the purchasing power of different currencies. In other words, they eliminate the differences in price levels between countries in the process of conversion; (b) Figures are expressed as an Index. Index numbers compare individual observations against a benchmark, where the benchmark is given an index of 100. In this case the average GDP per head across the EU25 is the benchmark and is given an index of 100. Index values of less than 100 show where GDP per head is below the average for the EU25 and vice versa for index values above 100.

Source: Eurostat

1.31 Figure 3 compares the difference² in GVA³ per head for the NUTS 3 areas of West Wales and the Valleys compared to the average for Wales as a whole. Overall GVA per head in West Wales and the Valleys between 2001 and 2003 was around £2,000 less than for Wales as a whole. Approximately 50% of this overall gap can be explained by lower value-added per job⁴. A further 25% of the overall gap is explained by the relatively low jobs to employment ratio⁵,

² Difference is between the NUTS 3 and NUTS 2 areas of Wales compared to the average for Wales as a whole

³ GVA is calculated as GDP minus indirect taxation and subsidies. Data comparing Wales to the EU average are only available as GDP per head.

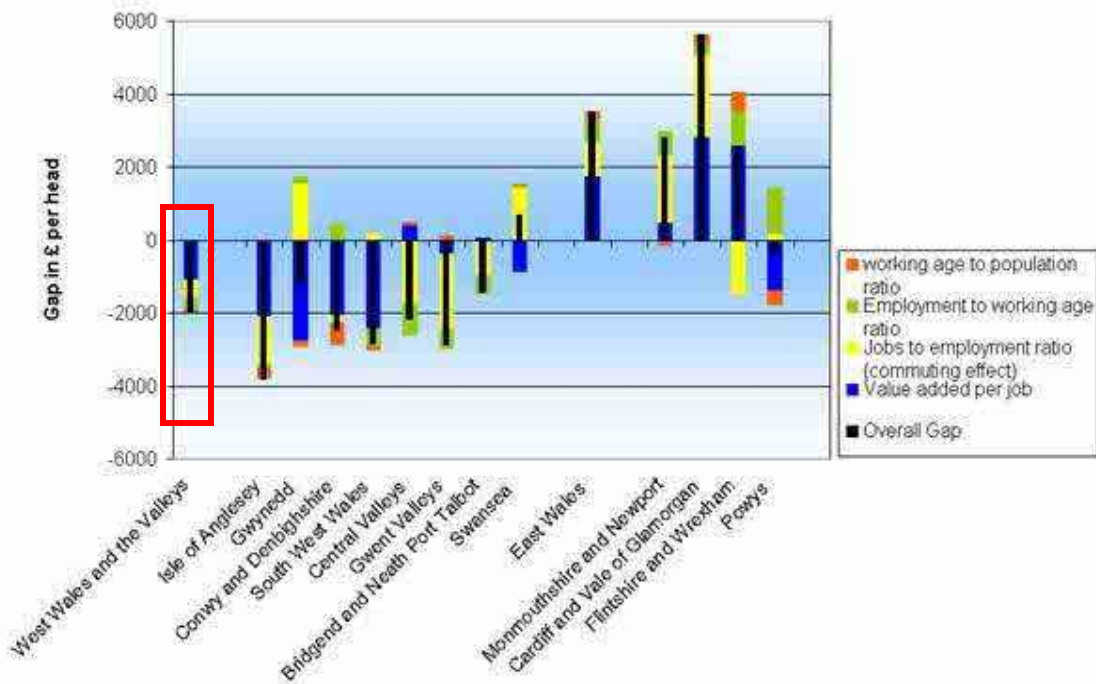
⁴ Often referred to as productivity, although as illustrated later, this can be misleading, as such a productivity measure does not account for the industrial structure of the company

⁵ The jobs to employment ratio shows the proportion of jobs that are located in a locality compared to the employment rate within the locality. For example, a locality may have a high number of people in employment living in the locality (high employment rate), however, individuals may be working outside the locality; i.e. commuting for employment, which means

i.e. the proportion of employed individuals working in West Wales and the Valleys, which reflects the location of jobs compared to residence. What this indicates is (in part) the relatively high proportion of workers who commute out of West Wales and the Valleys for employment. The remainder of the overall gap (between 15% and 25%) is explained by the relatively low employment to working age ratio (employment rate).

1.32 There is a variation in the contribution of each of the components of this gap in different parts of the region. In the western and northern areas (excluding Isle of Anglesey), lower value-added per job explains most of the gap. However, in the central valleys lower employment rates, and in particular a lower proportion of employed individuals working in these areas (low jobs to employment ratio) explain most of the overall gap. Within West Wales and the Valleys, Swansea is the only area that has higher GVA per head than the average for Wales as a whole; the Isle of Anglesey is some £3,800 below the Welsh average.

Figure 3. Analysis of GVA per head differences across West Wales and the Valleys compared to the Welsh average, 2001–2003 average



Source: Welsh Assembly Government based on ONS data

1.33 This clearly demonstrates the relevance of the Lisbon Agenda for West Wales and the Valleys. Creating more and better jobs and improving knowledge and innovation for growth are key to improving economic prospects. There is a need to build on the progress that has been made in increasing the proportion of people working in West Wales and the Valleys by creating employment opportunities, and ensuring residents have the skills and opportunities to enter employment. This is reflected in the green bars in Figure 3. Creating better jobs with higher value-added will help to alleviate the gap highlighted by the blue bars in Figure 3. An important driver for future growth

that the locality may have a low jobs to employment ratio.

will be to make sure that the region is an attractive place in which to invest and work.

1.34 The European Commission's Community Strategic Guidelines⁶ are highly relevant to the challenges facing West Wales and the Valleys. The following sections therefore follow these priorities, namely:

- creating more and better jobs;
- improving knowledge and innovation for growth; and
- making West Wales and the Valleys Wales a more attractive place to invest in and work.

CREATING MORE AND BETTER JOBS

1.35 Unfavourable labour market conditions explain between 15% and 25% of the overall gap in GVA per head between the region and Wales as a whole. Increasing the proportion of the working age population in employment is therefore central to improving the overall economic prospects for the region.

1.36 Table 1 shows the summary labour market data for West Wales and the Valleys, Wales the UK and the average for the EU. Since 2001 the labour market in West Wales and the Valleys has shown increases in the employment and economic activity rates coupled with a reduction in the unemployment rate. Despite these improvements the employment rate is still nearly two percentage points below the Welsh average, over five percentage points below the UK average and (just) below the 67% target set in the Lisbon Agenda for 2005.

1.37 The rate of economic inactivity is nearly five and a half percentage points higher than in the UK, despite recent reductions. All parts of West Wales and the Valleys have rates of economic inactivity higher than the UK average but the problem is particularly concentrated in the Valleys. Tackling this weakness is a key driver of the programme and the complementary ESF programme.

⁶ European Commission, 2005, Cohesion Policy in support of Growth and Jobs: Community Strategic guidelines, 2007-13., COM(2005) 0229:
http://europa.eu.int/comm/regional_policy/sources/docoffic/2007/osc/index_en.htm

Table 1. Labour market summary, EU25 comparison (percentage)

	2001	2005	Change over 2001
Employment rate (a)			
West Wales and the Valleys	63.1	66.4	3.3
Wales	65.4	68.3	2.9
UK	71.4	71.7	0.3
EU (15)	63.9	65.1	1.2
EU(25)	62.7	63.7	1.0
Economic activity rate (b)			
West Wales and the Valleys	67.4	70.0	2.6
Wales	69.5	71.5	2.0
UK	75.2	75.3	0.1
EU(15)	69.1	71.0	1.9
EU(25)	68.7	70.1	1.4
Unemployment rate (c)			
West Wales and the Valleys	6.3	5.1	-1.2
Wales	5.8	4.5	-1.3
UK	5.0	4.7	-0.3
EU(15)	7.5	8.2	0.7
EU(25)	8.6	9.0	0.4

(a) Employed persons are all persons aged between 15 and 64 who during the reference week (week when the data was collected) worked at least one hour for pay or profit, or were temporarily absent from such work. Family workers are included. Rate for those aged between 15 and 64;

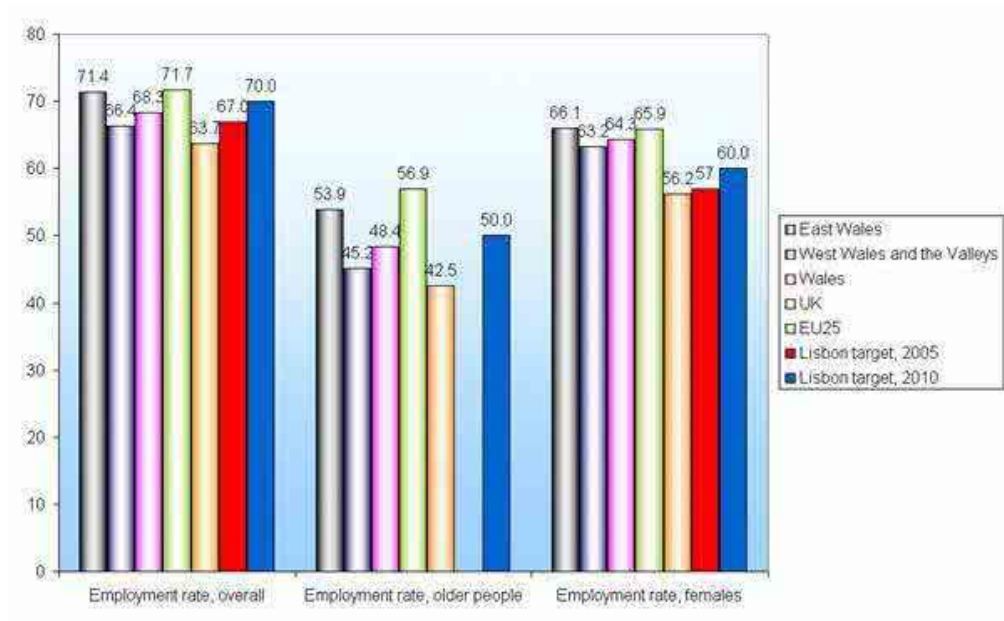
(b) Economically active population comprises employed and unemployed persons. Rate for those aged between 15 and 64;

(c) Unemployment rate represents unemployed persons as a percentage of the economically active population. Rate for those aged 15 and over.

Source: Eurostat

1.38 Figure 4 shows the progress that West Wales and the Valleys has made toward the headline Lisbon employment targets. In 2005 the region fell short of the main employment target for 2005 whereas the female employment rate was above the 2005 and 2010 targets. The employment rate of older workers was just below the 2010 target.

Figure 4. Progress against Lisbon targets, 2005 and 2010



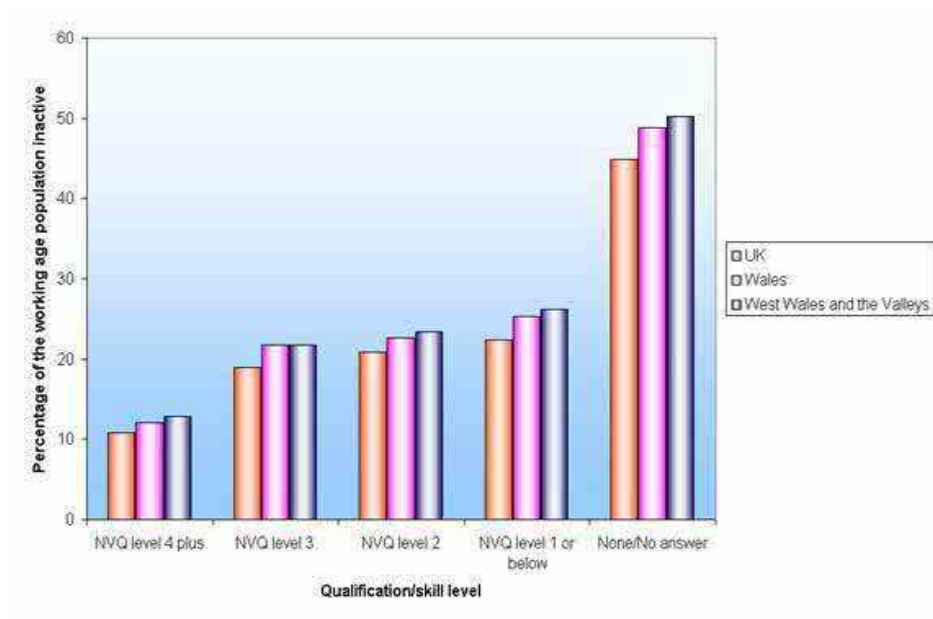
Source: Eurostat

1.39 There is a broad consensus that a change in the composition of the demand for labour explains key trends in the labour market over recent decades. The demand for people with low skills has weakened across the developed world, with the effects taking the form of lower relative pay and/or lower employment rates⁷. Employment rates for low skilled people tend to be higher where there are low concentrations of such people. (The clearest example of such a pattern is the South East of England outside London). The changing composition of the demand for labour has its greatest negative effects where the supply of such labour is highest, including in West Wales and the Valleys. Skill sets and educational qualifications are therefore crucial for understanding economic inactivity and labour market outcomes.

1.40 Figure 5 illustrates rates of economic inactivity in West Wales and the Valleys, Wales and the UK according to the individual's highest level of qualifications. It shows the increased rate of economic activity among groups with progressively higher qualification/skill levels (moving from right to left on Figure 5). The most significant difference is between no qualifications and Level 1 - where there is a high relative concentration of individuals with no formal qualifications a significantly higher percentage of those individuals are economically inactive. For West Wales and the Valleys, economic inactivity for those individuals with no formal qualifications is higher than for Wales and the UK as a whole. This corresponds to the relatively high concentration of individuals with no formal qualifications resident in the area.

⁷ Faggio, G and Nickell, S, 2005. Inactivity Among Prime Age Men in the UK. *CEP Discussion Paper 673*: <http://cep.lse.ac.uk/pubs/download/dp0673.pdf>

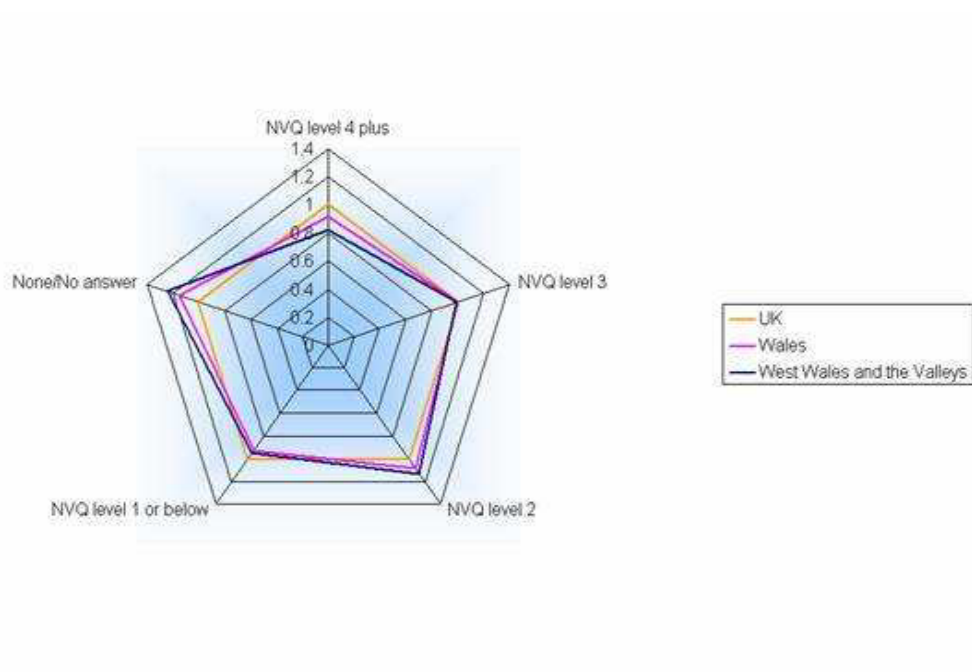
Figure 5. Economic inactivity rates by highest qualification, 2004 (per cent of the working age population)



Source: Labour Force Survey

1.41 Compared to the UK as a whole, West Wales and the Valleys has a smaller proportion of individuals with the highest levels of skills, particularly Level 4 and above. However, the region as a whole has a relatively high concentration of individuals with NVQ Level 2 qualifications and a relatively low representation of individuals with NVQ Level 1 compared to the UK. Most importantly, West Wales and the Valleys (and Wales as a whole) has a higher representation of individuals without any formal qualifications.

Figure 6. Qualification/skill set, West Wales and the Valleys (UK=1)



Source: Labour Force Survey

IMPROVING KNOWLEDGE AND INNOVATION FOR GROWTH

ANALYSIS OF THE ADDED-VALUE GAP IN WALES

1.42 Long-term economic growth and increases in earnings depend crucially on raising productivity, or value-added, per job⁸. While the largest component of the overall value-added gap is lower value-added per job⁹, detailed analysis¹⁰ of the variation in earnings (which can proxy value-added¹¹) across Great Britain suggests that most of the difference between Wales and the Great Britain averages is due to the following three factors:

- an adverse and long standing occupational and industry mix with few high value-added jobs, whether in company head offices and R&D departments or in sectors with high rewards such as financial or professional services;
- associated with this, an unfavourable qualifications profile in the workforce as a whole; and
- an inability to benefit from strong agglomeration effects, due to Welsh town and cities being relatively small and much of Wales being sparsely populated and distant from major centres.

1.43 Figure 7 illustrates the findings of this research¹². It shows that agglomeration effects explain a higher proportion of the low earnings in Wales than for any other part of Great Britain¹³. In addition Wales' adverse occupational structure and low skills levels are also factors.

1.44 Agglomeration effects can be most effectively generated close to existing areas of economic mass. Indicative estimates show that it is around city fringes where most gains can be made and that reducing the overall time to

⁸ Added-value per job across the UK lags that of other major industrialised countries and the importance of increasing productivity for economic growth cannot be underestimated. In 1999, it was estimated that if the UK were to match the performance of the US, for example, output per head would be over £6,000 higher.

⁹ *Wales: A Vibrant Economy*, Welsh Assembly Government's Strategy for Economic Development: <http://new.wales.gov.uk/about/departments/dein/publications/wave?lang=en>

¹⁰ Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper No.642*.

¹¹ Primary measure used in the research is based on an earnings index which measures the spatial differences in earnings controlling for occupational structure. It therefore reflects spatial differences in productivity.

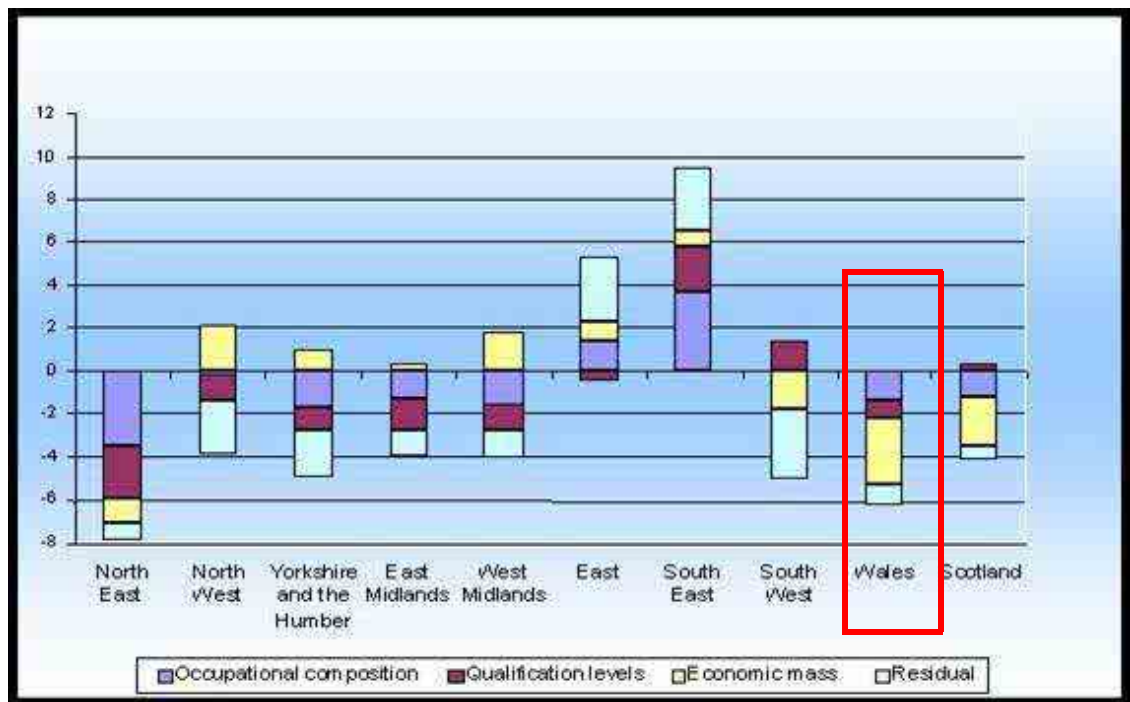
¹² Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper No.642*.

¹³ Four main sorts of mechanisms explain the relationship between agglomeration and added-value per job. One is technological spillovers which arise as firms located within close proximity to others involved in related activities, innovate and implement new technologies more efficiently. The second is simply that firms benefit from lower costs of trade and transportation if they have wider access to customers and suppliers. The third is that larger labour markets work more efficiently by reducing search costs for both employees and employers due to the large pool of potential workers and wider access results in a larger market that gives better matching of individuals to employers. The fourth mechanism is that stronger competitive pressures arise from a larger concentration of firms and individuals and lead to improvements in productivity.

destination to within 30-40 minutes from a centre of critical mass has four times the impact on productivity than moving an individual within 60-70 minutes. For the Convergence programme area this implies that investing in enhancing transport links from areas such as the South Wales Valleys to Cardiff, Newport and Swansea will have the greatest impact on productivity. Enhancing transport accessibility will also help to improve access to jobs for the lower skilled, for whom opportunities are increasingly created in personal and retail services located in the larger centres.

1.45 The benefits derived from generating economic mass from transport investment vary by industry and benefits are largest in the service sector. A 10% increase in the level of agglomeration is associated on average with a 1.29% increase in aggregate productivity in the service sector compared to 0.07% on the manufacturing sector. Wales' sectoral approach to economic development focuses on higher value added service sectors and increasing productivity amongst existing businesses as well as creating business conditions to attract higher value added industries to Wales.

Figure 7. Analysis of earnings (a) differentials (percentage difference from Great Britain average)



(a) Primary measure used in the research is based on an earnings index which measures the spatial differences in earnings controlling for occupational structure. It therefore reflects spatial differences in productivity.

Source: Rice and Venables, 2004, Spatial determinants of productivity analysis for the regions of Great Britain, CEP Discussion Paper No.642

1.46 The implications of agglomeration are not straightforward, although a recent study¹⁴ concluded that appropriate investment in transport infrastructure can develop economic mass and have a positive effect on value added¹⁵. By

¹⁴ Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper No.642*.

¹⁵ GRAHAM, D, 2005 Investigating the link between productivity and agglomeration for UK industries. http://www.hm-treasury.gov.uk/media/38C/C0/eddington_researchannex1.4_011106.pdf

reducing the time and cost of movement, transport interventions can increase density and increase output per employee. Transport systems influence proximity, or the ease of access, to other firms and to labour markets. In effect, transport can change urban or industrial densities by making a larger scale of activity more accessible. It is clear that transport investment can generate agglomeration benefits which increase economic output. Although raised here in relation to agglomeration, the transport situation is described in more detail in the later section *Making Wales an Attractive Place to Invest and Work*.

Industrial Structure

1.47 Industrial structure is a second significant factor in explaining Wales' lower output per head. The industrial structure for West Wales and the Valleys shows a relatively high representation of industries that have exhibited relatively low growth rates, such as production industries, and a relatively low representation of industries, such as finance and business activities, which have experienced relatively high recent growth at the UK level¹⁶.

1.48 Figure 8 shows civilian workforce jobs in West Wales and the Valleys. The size of the bubble shows the relative employment share of the sector compared to the total employment in the region (the bigger the bubble the higher the proportion of total employment in the sector). The position of the bubble along the horizontal axis shows the relative concentration of the sector in West Wales and the Valleys compared to the UK average (sectors to the left of the vertical axis are relatively under-represented in West Wales and the Valleys compared to the UK). The position of the bubble on the vertical axis depends on the change in employment since 2000. Where a sector has seen a rise in employment the position of the bubble will be in the upper half of Figure 8 and in the bottom half if employment in the sector has fallen.

1.49 Figure 8 shows the over-dependence on declining industries. Although small in absolute terms, agriculture has seen a significant fall in civilian workforce jobs and has a relatively high representation. Production has a large share of total employment (16%) but has declined. While industrial change is occurring across West Wales and the Valleys, as illustrated by rising employment in service sector activities, these sectors are still relatively under-represented and account for a relatively small proportion of total employment. *Wales: A Vibrant Economy*¹⁷ identifies a range of sectors which are high value-added and/or offer growth potential. Development of these key sectors will help to increase output per head and boost Welsh headline GVA.

Figure 8. Civilian Workforce Jobs by industry, bubble charts

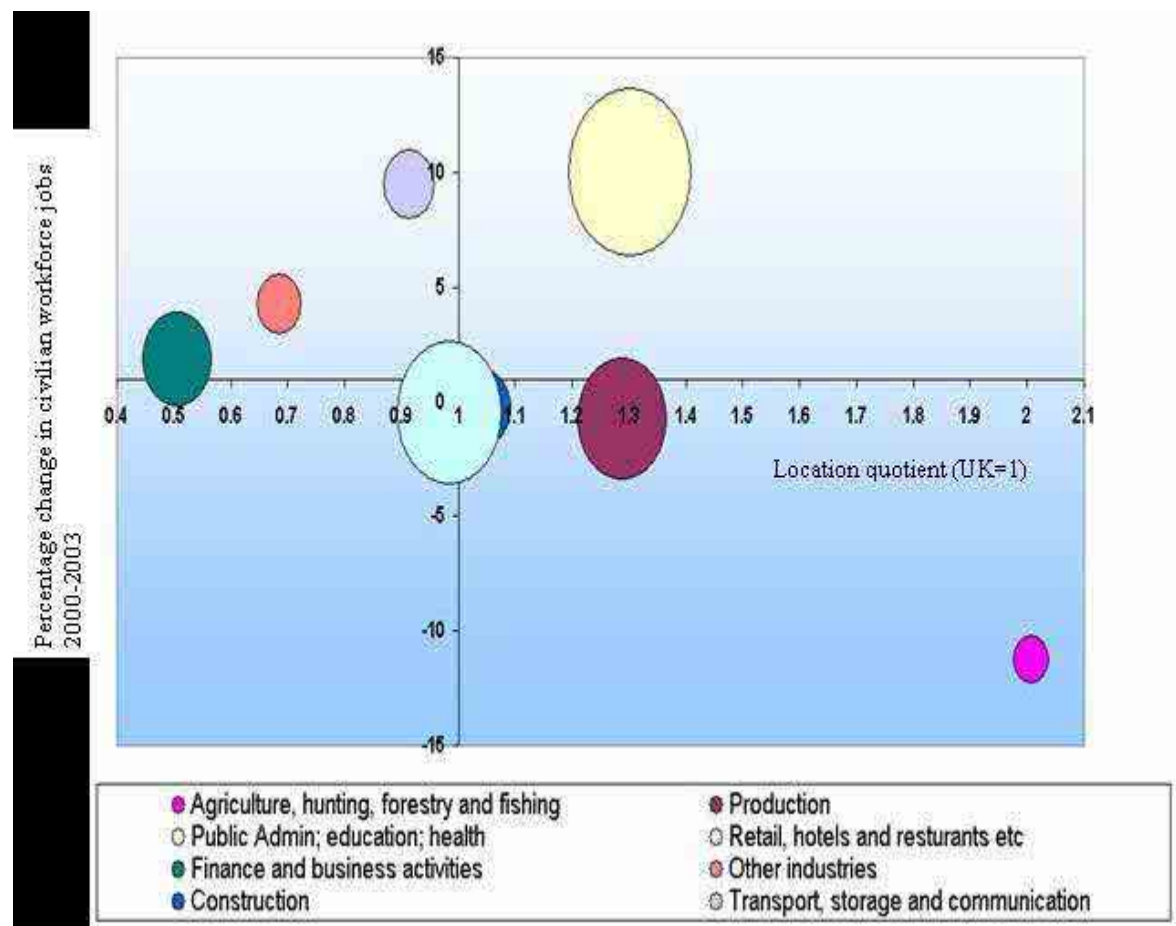
¹⁵ Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper* No.642.

¹⁶ Graham, D. (2005), "Wider economic benefits of transport improvements: link between agglomeration and productivity: Stage 1 report", UK Department for Transport.

¹⁶ Annual Business Inquiry. A summary is available at:

<http://www.wales.gov.uk/keypubstatisticsforwalesheadline/content/economy/2005/hdw200512161-e.htm>

¹⁷ *Wales: A Vibrant Economy*, Welsh Assembly Government's Strategy for Economic Development: <http://new.wales.gov.uk/about/departments/dein/publications/wave?lang=en>



Source: Annual Business Inquiry, Short-term Employment Survey and Labour Force Survey

Innovation, R&D and Entrepreneurship

1.50 For individual businesses, the development of new or improved products, processes and services can be significant drivers for establishing a competitive advantage. Beyond these direct benefits innovative practices can lead to spill-over benefits for society as a whole as individuals work in more efficient ways and new products are created¹⁸.

1.51 Overall R&D expenditure is 1.3% of GVA for Wales (data are not available below this level). This is below the average for the UK as a whole, primarily reflecting lower R&D expenditure within the business sector. In 2003, 55% of R&D expenditure was within the business sector, which is some way below the Lisbon target of 67%. Again this mainly reflects the industrial structure of the Welsh economy (with, for example, relatively low representation of pharmaceutical companies which have high R&D spend), since on many measures of innovation Wales is only just below the UK average.

1.52 Appropriate use of ICT can have a positive impact on business productivity¹⁹ by increasing efficiency and performance management. The

¹⁸ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence.

¹⁹ Rincon, A et al, 2005, The Productivity Impact of E-commerce in the UK, 2001: Evidence from Microdata: <http://www.niesr.ac.uk/pubs/searchdetail.php?PublicationID=548>

Annual Small Business Survey²⁰ shows that SMEs in West Wales and the Valleys use ICT less than across the UK as a whole. Wales has the second lowest Internet access rate²¹ for individuals of all parts of the UK, and the second lowest proportion of households with internet access at their home²². However, data on internet access across the EU²³ shows that the UK has a higher proportion of households with access to the Internet than across the EU25 as a whole (comparable data for Wales are not available from Eurostat).

1.53 Higher Educations Institutions (HEIs) can play a positive role²⁴ in technology transfer through collaborative research with the private sector, direct business starts and spin-offs. In Wales, approximately £50 million was generated in income from collaborative research between HE and the public and private sectors in 2002-03²⁵. Higher education institutions also play a role in business generation with 22 new spin-off companies in 2001-02 with approximately £21 million in turnover generated from all active spin-off companies.

1.54 In addition to encouraging innovation, a strong entrepreneurial culture can be an important factor in the creation of new business and the expansion of existing ones²⁶. Although there is no single measure of entrepreneurship, the headline level of VAT registrations per thousand working age individuals can be used as a proxy. As Figure 9 shows, West Wales and the Valleys has a consistently lower level of VAT registrations per thousand working age population than Wales and the UK as a whole.

Figure 9. VAT Registrations per 1,000 working age population

²⁰ Further details are available at:

<http://new.wales.gov.uk/about/departments/dein/publications/smallbusiness?lang=en>

²¹ Measured by the proportion of adults that had used the Internet in the three months prior to interview. Source: Office for National Statistics.

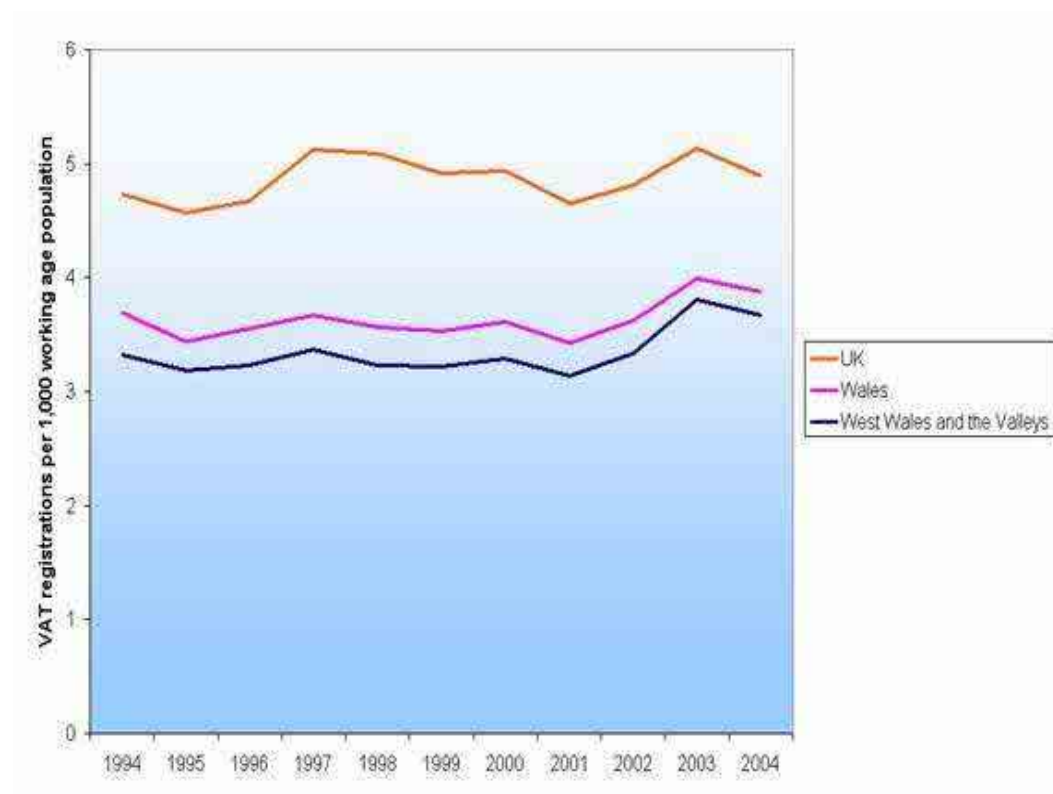
²² Data from the Office for National Statistics

²³ Eurostat.

²⁴ Rodgers, E.M et al (2000) Assessing the Effectiveness of Technology Transfer Offices at U.S. Research Universities.

²⁵ Higher Education Funding Council for England, 2005, Higher Education Business and Community Interaction Survey: http://www.hefce.ac.uk/Pubs/HEFCE/2005/05_07/#exec

²⁶ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence.



Source: Small Business Service

1.55 Detailed analysis by industry group helps to explain the relatively low VAT registration rate. Rates are highest in service sector industries, such as hotels, restaurants, financial and business services, and lower in production industries and agriculture. West Wales and the Valleys tends to have a high concentration in those sectors of industry where VAT registration rates are lower. Industrial structure, therefore, goes some way in accounting for the relatively low level of VAT registrations.

1.56 The Global Entrepreneurship Monitor²⁷ attempts to measure entrepreneurial activity across the world. The Total Early Stage Entrepreneurial Activity (TEA) index identifies the proportion of the working age population who are either setting up or have been running a business for 42 months or less. In 2005, West Wales and the Valleys had a TEA index of 5.2%, compared to 5.25% across Wales as a whole and 6% for the UK. Wales is ranked about mid-way compared to the regions and devolved countries of the UK, with London at the top of the scale (8.34%).

1.57 The number of researchers provides a useful proxy for the number of people employed in providing high value-added services and research and development functions. West Wales and the Valleys has a lower number of researchers in HEIs per 10,000 population than across Wales and the UK as a whole. In addition, the proportion of employment in high and medium high technology manufacturing and knowledge-intensive high-technology services in

²⁷ The Global Entrepreneurship Monitor (GEM) is one of the largest international social science research projects in the world and measures entrepreneurial attitudes and activities of individuals in 35 different countries. Its key measure of entrepreneurial activity, the TEA index, measures the total early stage entrepreneurial activity defined as the proportion of working age individuals who are engaged in setting up or running businesses either for themselves or for their employer that are less than 42 months old. Further details are available at:

<http://www.gemconsortium.org/>

West Wales and the Valleys is slightly below that of the UK and European averages, representing just under 10% of total employment in the sub-region.

1.58 External trade of goods and services can be an important component of business performance²⁸. The Annual Small Business Survey shows 11% of SME businesses in West Wales and the Valleys sell goods and services outside the UK. This compares to 13% across Wales as a whole and 21% across the UK. Firms that export learn from the companies they sell to and are more likely to then have productivity growth²⁹. This study points to a significant market failure and suggests scope for government intervention to overcome informational deficiencies that may inhibit potential exporters.

MAKING WALES A MORE ATTRACTIVE PLACE TO INVEST IN AND WORK

TRANSPORT AND TRAVEL PATTERNS

1.59 Accessibility is an important element in the attractiveness of regions. In addition to generating agglomeration benefits, transport accessibility can also promote economic development and territorial cohesion.

The Transport Network

1.60 The transport network in Wales has evolved over time, initially to move agricultural products to market, and later to move the products of industry to customers. The relatively low population density, especially in areas away from the north and south coasts, is a key determinant of the nature of the transport system in West Wales and the Valleys with four main transport corridors bisecting West Wales and the Valleys. These are the east-west corridors in North, Mid and South Wales and the North-South corridor. The key role of the TEN-T network can be seen in see Figure 10, where the TEN-T east-west routes in both north and south Wales serve both to connect businesses to markets in other parts of Wales, in England and beyond. These routes also play a major part in facilitating journeys to work. As the data on commuting patterns show, many journeys involve commuting between West Wales and the Valleys and East Wales.

Figure 10. Traffic flows

²⁸ External trade increases the size of the potential market both for selling outputs and buying inputs. Increases in the potential market can lead to increases in turnover and increases the potential gains from economies of scale. Increases in the potential market for inputs can lead to reductions in input prices.

²⁹ CRESPI, G et al (2006) Productivity, exporting and learning by exporting hypothesis: Direct evidence from UK firms. CEP discussion paper No 726.
<http://cep.lse.ac.uk/pubs/download/dp0726.pdf>



1.61 The ownership and availability of cars is a crucial factor in personal travel in West Wales and the Valleys, where there is generally low public transport provision. The proportion of households without a car has been falling (from 32 per cent in 1996 to 25 per cent currently) and some 70 per cent of all personal journeys in Wales are made by car. Nevertheless, for those households without access to a car, particularly those away from the main urban centres, there will be real difficulties in accessing employment opportunities and key services.

1.62 Buses and coaches are used less in Wales than elsewhere in Great Britain with 47 journeys per person per year compared with 59 in Great Britain overall. Use of the rail network is lower still, at less than half the Great Britain average, although some areas (Valleys Lines network for example) have seen rapid growth in recent years. These networks provide access to jobs located in the prosperous coastal strip, including Cardiff and Newport.

1.63 Transport infrastructure determines relative access to services, including employment centres. The link between transport and output per head has been made above (see “improving knowledge and innovation for growth”) however, transport can also have important social inclusion implications. Analysis of commuting patterns highlights the importance of good transport networks. Analysis of commuting flows within the South Wales Valleys³⁰ shows there are large net outflows of individuals for employment, and areas of the South Wales Valleys have some of the largest net outflows, Rhondda Cynon Taff, Torfaen and Caerphilly in particular. The largest net inflows are to the local authorities of Cardiff and Newport. Maintaining and possibly improving transport networks both within the South Wales Valleys and to areas such as Cardiff and Newport will be very important in enhancing the employment links from some of the poorest parts of West Wales and the Valleys to areas where the labour market is more buoyant.

Demographic trends

1.64 Demographic patterns can reveal the relative attractiveness of an area for individuals³¹. The main driver of population growth across West Wales and the Valleys in recent years has been net in-migration. However, significant variations exist within the region. The general picture is that net out-migration is a feature of the upper valleys³², while most other areas, particularly the more rural areas, experience net in-migration. Between 2001 and 2004 the only Local Authorities in Wales that experienced net out-migration were Torfaen, Blaenau Gwent and Merthyr Tydfil, all located in the upper South Wales Valleys³³. Urban and regional policy should attempt to attract people at least as much as attracting firms³⁴ and the decline of population presents a significant risk to social cohesion and local economies in the South Wales Valleys due to the links associated with out-migration population loss and adverse economic outcomes³⁵.

³⁰ ONS, 2005, Statistics on Commuting in Wales, 2004.

<http://new.wales.gov.uk/docrepos/40382/40382313/403824/economy/econ-2005/sb76-2005.pdf?lang=en>

³¹ It must be noted that migration patterns are a factor of various interactions and not just relative attractiveness.

³² Defined as the Local Authorities of: Blaenau Gwent; Merthyr Tydfil and Torfaen.

³³ It must be noted that migration patterns are a factor of various interactions and not just relative attractiveness.

³⁴ Glaeser. E (2004) Four Challenges for Scotland’s Cities, Allander Series

<http://www.fraser.strath.ac.uk/Allander/AllanderPapers.htm>

³⁵ These include restricted access to markets, limited access to best-practice technologies, overwhelming advantages enjoyed by competing high-growth regions, and/or other market imperfections limit development in the affected region, reducing employment opportunities and leading to long-term out-migration of young, skilled, and/or educated populations.

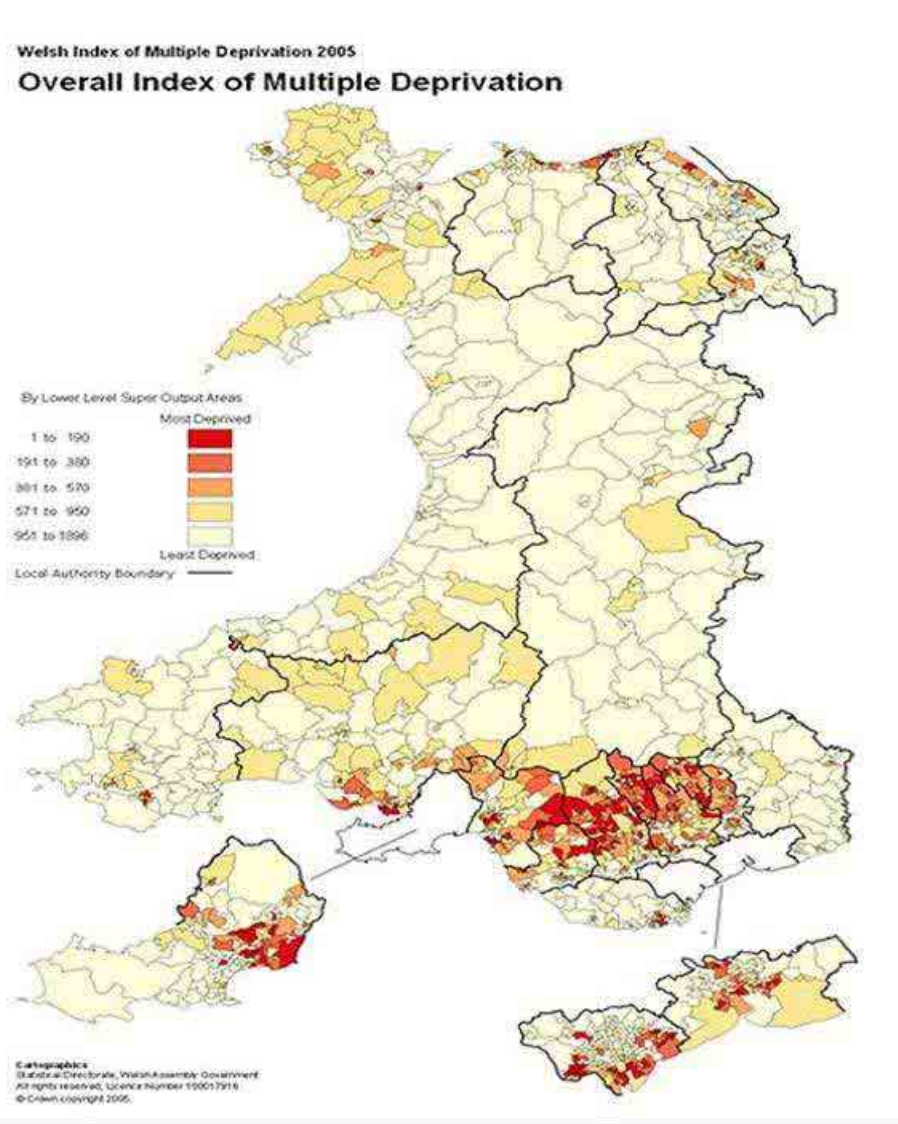
Feser. E and Sweeney. H (1999) Out-migration, population decline and regional economic distress. Department of City and Regional Planning, University of North Carolina.

<http://www.urban.uiuc.edu/faculty/feser/PUBS/EDAdoc.pdf>

POVERTY AND DEPRIVATION

1.65 The Welsh Index of Multiple Deprivation 2005 (WIMD)³⁶ is the official measure of deprivation for small areas in Wales. Deprivation is a wider concept than poverty. Poverty measures relate to income, whereas deprivation relates to a wider range of issues caused by a general lack of resources and opportunities (not just money). The WIMD 2005 is made up of seven separate domains (or types) of deprivation³⁷. Figure 11 summarises the overall scores of deprivation across Wales, with areas of the upper valleys generally having the highest relative concentration of deprivation.

Figure 11. Welsh Index of Multiple Deprivation



Source: Welsh Index of Multiple Deprivation 2005

1.66 The WIMD also provides useful insight into issues of access to services³⁸, including transport, since the indices are measured as time taken to

³⁶ For further details see: <http://new.wales.gov.uk/topics/statistics/theme/wimd2005/?lang=en>

³⁷ Income, employment, health, education, housing, access to services and environment.

³⁸ Services include, access to food shop, GP, schools, NHS Dentist, public library and leisure centre. For more details see: <http://new.wales.gov.uk/docrepos/40382/40382313/403824/wimd-2005/403821101/wimd2005-report-geo-e.pdf?lang=en>

access a given service. For this domain, deprivation is concentrated in the western areas of Wales rather than in the valleys, reflecting the rural nature of West Wales and sparsity of urban centres where the majority of local services would be located.

1.67 The importance of networks, both informal and formal is highly relevant, especially for individuals living in rural areas. This has obvious implications for West Wales and the Valleys given that a large proportion of the area is rural. Those at most disadvantage have strong links to their local community and that community support and local access to training and job opportunities can be important. A recent study of the economically inactive in Wales showed that the majority (75 per cent) of respondents who wanted to work in the future were either 'Not Very Willing' or 'Not at All Willing' to move to find an acceptable job. Similarly, 92 per cent of respondents in this group also said they were only looking for work in the town in which they lived or the surrounding area. This suggests the economically inactive have a strong attachment to their local communities, and this can lead to problems in finding jobs locally and the provision of services to assist the most disadvantaged into employment and wider social inclusion.

THE ENVIRONMENT

1.68 Although individuals' characteristics are more important in determining economic outcomes³⁹, evidence on the significance of 'place' shows that the overall attractiveness of a town or region can have a significant impact on the economic outcomes of the inhabitants⁴⁰. In addition supporting the development of attractive towns and regions can generate agglomeration effects, as attractive areas become popular locations for individuals to live, work and invest in. The physical attractiveness of towns and their locales can be crucial in attracting the skilled and affluent - as well as in promoting their functions as local service centres and tourist destinations. A number of less tangible factors can also be important, notably quality of life and aspects of community and culture. A high quality environment can therefore be an important driver of economic and social well-being, as well as being a public good in its own right. Preserving and enhancing the quality of the environment will be increasingly important for our economy and quality of life in the era of the knowledge economy.

1.69 Air quality is a headline environmental indicator. In Wales, it is estimated that emissions of methane and perfluorocarbons have fallen, while hydrofluorocarbon emissions are estimated to have increased. The overall effect has been an estimated decrease of 3.6% in emissions of the basket of greenhouse gases from Wales in 2003.

1.70 The use of renewable resources or waste as a source of energy is an important component of reducing greenhouse gas emissions. As only 0.5% of

³⁹ See Durlauf, S, (2004. Neighbourhood Effects. *Handbook of Urban and Regional Economics, Volume 4, Economics*, J. V. Henderson and J.-F. Thisse, eds; Mackay, S, 2003 Local Area Characteristics and Individual Behaviour. Social Research Division, Department of Work and Pensions. In-house report 123.

⁴⁰ Dynamic Small Towns: Identification of Critical Success Factors. Report for the Economic Research Advisory Panel 2002.

all energy consumed in Wales is from renewable sources it is clear that further progress can be made which will help the EU contribution to the Kyoto targets. However, the figure for West Wales and the Valleys and Wales as a whole is above the average for Great Britain. As highlighted in the UK's Energy Review⁴¹, 'the starting point for reducing carbon emissions is to save energy' (DTI, 2006). There remain a number of obstacles to the take up of energy efficiency including the lack of information about costs and benefits, absence of appropriate incentives, and lack of motivation among consumers⁴².

1.71 The energy management and renewable energy sector is expected to be a leading growth sector in environmental goods and services across the UK. This growth is driven by policy drivers (such as meeting the Kyoto agreement) but also rising fuel prices and public opinion on the use of renewable energy⁴³. Given the expected growth in this sector opportunities exist to maximise growth while reducing the risks associated with climate change and benefiting from any associated economic impacts.

1.72 Based on the results of a recent mapping survey⁴⁴, the Environmental Goods and Services (EGS) sector in Wales (excluding Landscape Industries) accounts for around 4% of the UK industry with a significantly higher than average share in the Renewable Energy, Environmental Consultancy, Land Remediation, Environmental Monitoring and Cleaner Technology sub-sectors. It is estimated that there are about 1,000 primary EGS companies⁴⁵ in Wales and a further 320 secondary EGS firms giving a total of 1,320 companies that are active in the EGS sector with some 22,000 employees. The EGS sector in Wales has grown rapidly since the previous study in 2002 which identified 725 firms employing 12,400 staff, and about 90% of the companies expect turnover to grow and nearly 20% forecasting high growth.

⁴¹ DTI, 2006, The Energy Challenge, the UK Government's Energy Review: <http://www.dti.gov.uk/files/file31890.pdf>

⁴² DTI, 2006, The Energy Challenge, the UK Government's Energy Review: <http://www.dti.gov.uk/files/file31890.pdf>

⁴³ DTI, 2006, Study of Emerging Markets in the Environment Sector

⁴⁴ Quantum Strategy and Technology, 2007 Mapping the Environmental goods and services sector in Wales.

⁴⁵ Using the UKFEI definition: a primary EGS firm is one for which 50% or more of annual turnover is in the EGS market or the EGS sector is the largest area of focus)

SWOT ANALYSIS

1.73 The following summarises the socio-economic evidence in the form of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. The SWOT analysis highlights the particular areas where West Wales and the Valleys stands out as being different to the rest of Wales and the UK as a whole, as well as providing key areas where targeted intervention can best make an impact.

Table 2. SWOT Analysis for ERDF Convergence

Strengths	Weaknesses
<p>-Improvements in the labour market conditions with rising employment coupled with falling unemployment and falling economic inactivity show problems not to be intractable.</p> <p>-Employment growth across West Wales and the Valleys almost twice the rate of East Wales and above UK and EU levels.</p> <p>-Rise in female employment with the current employment rate above the 60% target set in the Lisbon Agenda.</p> <p>-Lower gender pay gap than across the UK as a whole, although still above EU average.</p> <p>-Lower proportion of pupils leaving school at 16 without attaining a formal qualification than across Wales and the UK as a whole.</p> <p>-Rise in income generated from collaborative research between higher education institutions and public and other organisations in Wales then compared to the UK as a whole.</p> <p>-Four fold increase in the number of 5* rated higher education departments in Wales according to the latest Research Assessment Exercise (RAE).</p> <p>-Good quality natural environment in almost all areas of West Wales and the Valleys attractive to tourists and in principle should be attractive to families and investors.</p> <p>-Good quality of life helping to increase net migration into Wales.</p>	<p>-Low GDP per head relative to all Wales and UK averages.</p> <p>-Lower Gross Disposable Household Income than the Welsh and UK averages.</p> <p>-Despite improvements, West Wales and the Valleys has lower employment, higher economic inactivity and higher unemployment than for Wales and UK as a whole and higher than the EU.</p> <p>-Lower than average earnings than for Wales and UK as a whole.</p> <p>-Higher incidence of poor health coupled with a higher proportion of people reporting to be economically inactive due to ill health.</p> <p>-Adverse skills profile, with a high proportion of individuals without any formal skills.</p> <p>-Lower proportion than compared with Wales as a whole of pupils achieving five or more GCSEs grades A*-G or vocational equivalent.</p> <p>-Lower proportion of pupils staying on at further education at the age of 16 couples with lower A/AS level attainment than compared to Wales as a whole and the UK.</p> <p>-Higher Proportion of 19-21 year olds without any formal qualifications than compared to the UK average.</p> <p>-High dependency on low value-added, declining industries including agriculture and production sectors.</p>

<p>-While only 0.55% of all energy consumed in West Wales and the Valleys comes from renewable energy sources, this is higher than for the rest of Wales and the UK.</p>	<ul style="list-style-type: none"> -Low R&D expenditure, particularly low private sector R&D. -Lower rates of business ICT use than compared to the UK as a whole. -Low rates of entrepreneurship as measured by VAT registration. -Low number of researchers in higher education institutions. -Lower proportion of 5* RAE rated higher education departments in Wales than compared to the UK average. -Remoteness of some areas of West Wales and the Valleys with relatively poor access to markets and public services. -Congestion on key access routes into the region and within the region. -Poor transport accessibility and high reliance on private vehicles. - Lack of strategic sites to attract new investors. -Many parts of West Wales and the Valleys need to improve their management for waste and water in response to stricter EU legislation in these areas. -High levels of overall deprivation driven in the main by income and employment deprivation.
<p>Opportunities</p>	<p>Threats</p>
<ul style="list-style-type: none"> -Opportunity to build on the strengths of the previous round of Structural Funds and the increase in capacity for community, public and private sector regeneration. -Potential to build on and further develop the established networks with higher education institutions and business. -Potential to increase R&D activity and its commercial exploitation within the Programme area. - Opportunities for greater use of ICT by business and communities. - Opportunities for new business development. 	<ul style="list-style-type: none"> -Weaker R&D agglomeration effects and spin-outs because of low R&D base. -Lower take-up of new developments in ICT combined with poor geographic coverage in some areas. -Deficiencies in business knowledge and information in some areas. -Very poor physical environment in some areas. -Wales' CO₂ emissions need to be reduced to meet the UK's commitments under the Kyoto protocol. -Potential challenges posed by climate change. -Falling demand for low skilled individuals cited as principal cause for

<p>-Scope to provide the right environment and human capital for economic diversification.</p> <p>- Opportunities to invest in businesses with growth potential.</p> <p>-Opportunities to encourage businesses to adopt new processes and practices.</p> <p>- Scope to move businesses up the value added ladder.</p> <p>-Potential to support growth in each of the 10 key sectors all of which have a presence in the Programme area.</p> <p>-Opportunities to exploit the spill-over effects from the relatively more prosperous and dynamic neighbouring Competitiveness area.</p> <p>-Potential to exploit specific opportunities in the growing environmental goods and services sector, including energy management, renewable energy and the waste management sectors.</p> <p>- Potential to improve the transport network and accessibility and both intra and inter regional links.</p> <p>-Opportunities to develop eco-innovation and innovative technologies in achieving sustainable production and consumption.</p> <p>-Scope to improve the skills levels and increase the size and depth of the labour pool.</p> <p>-Potential to build on local strong community networks to achieve lasting benefits from investment in physical infrastructure and people.</p>	<p>higher economic inactivity in West Wales and the Valleys. As demand continues to fall, social issues become entrenched.</p> <p>-Ageing population resulting in a lower relative proportion of working age individuals (high dependency ratio) and increased pressure on many public services (although a better understanding of migration patterns is required as this may counter the natural ageing of the population).</p> <p>-Falling population in the upper valleys as individuals migrate to other parts of Wales and England.</p>
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CHAPTER 3 THE STRATEGY

INTRODUCTION

1.74 This chapter sets out the overall strategy for the West Wales and the Valleys ERDF Convergence Operational Programme. It considers the key challenges facing the region and reviews the progress made in addressing these, including with the support of the current Objective 1 programme. The strategy sets out the objectives and priorities for the new Convergence programme, explaining how these will contribute to the continuing revival of the West Wales and the Valleys economy and stimulate growth. It has been developed in the context of both the European Commission's Integrated Guidelines for Growth and Jobs⁴⁶ and the Community Strategic Guidelines for Cohesion 2007–2013⁴⁷. The strategy explains how the programme will contribute to the UK's overall response to the Lisbon agenda for jobs and growth, as set out in the National Reform Programme⁴⁸ and the National Strategic Reference Framework (NSRF)⁴⁹. It also explains how the ERDF funds will be concentrated to maximise the potential for growth and jobs and to add value to the Welsh Assembly Government's strategies for supporting sustainable economic development. Finally, the strategy sets out the main principles that will guide the implementation of the new programme, including the key role to be played by partners at national, regional and local levels. The development of the programme will be taken forward reflecting the key principles of EU Cohesion policy, including partnership, transparency, co-financing, evaluation, proportionality, sustainable regional development, equal opportunities and added value.

CURRENT EU STRUCTURAL FUNDS 2000–2006

1.75 West Wales and the Valleys is benefiting from support of over £1.3bn (€1.8bn) from the European Structural Funds programme under the Objective 1 programme 2000–2006. Coupled with match funding from the public, private and voluntary sectors, over 1,700 projects are receiving investment totalling more than £3.1 billion. Within this total, over 920 projects are in receipt of ERDF support totalling some £830m making a real difference to the futures of businesses, communities and individuals across the region. The Mid-term Evaluation Update (MTEU) of the Objective 1 programme 2000–2006⁵⁰ estimates that up to 40,500 net new jobs and 1,895 net new SMEs will have been created by the end of the programming period in 2009. Furthermore, up to

⁴⁶ Integrated Guidelines for Growth and Jobs (2005–2008)

http://ec.europa.eu/growthandjobs/pdf/COM2005_141_en.pdf

⁴⁷ Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007–2013

http://ec.europa.eu/comm/regional_policy/sources/docoffic/2007/osc/050706osc_en.pdf

⁴⁸ Lisbon Strategy for Jobs and Growth: UK National Reform Programme, October 2005

http://www.hm-treasury.gov.uk/media/E60/3D/lisbon_jobs131005.pdf

⁴⁹ UK National Strategic Reference Framework: 2007–2013 consultation document

<http://www.dti.gov.uk/files/file26282.pdf>

⁵⁰ Mid-term Evaluation Update for Objective 1 Programme 2000–2006, Final Report, December 2005 by Old Bell 3 for the Welsh Assembly Government:

<http://www.wefo.wales.gov.uk/resource/2005-12-23-O1-MTEU-Final-Report6586.pdf>

84,800 unemployed or economically inactive people will have moved into employment or further learning. Structural Funds have played a significant role in developing the West Wales and the Valleys' economy, contributing significantly to the aim of achieving strong and sustainable economic growth in line with the Lisbon and Gothenburg reform agendas.

1.76 The new ERDF Convergence Programme will build on this success and learn from the experience of the Structural Fund programme 2000–2006, both in terms of its strategic focus and the arrangements for implementation. The next phase of the transformation of the West Wales and the Valleys' economy will take forward existing interventions with a proven track record of success, while encouraging new and innovative approaches. It will not simply be more of the same but more of the best, with a strong focus on increasing business competitiveness and employment. The available funding will be devoted to building lasting economies and communities that will thrive and drive strong and sustainable economic growth. Investments will be made on the basis of future potential and this theme of long-term economic capacity building – essential for jobs and growth – will be the cornerstone of resource allocation.

KEY STRATEGIC CHALLENGES

1.77 Chapter 2, the Analysis, showed that the West Wales and the Valleys economy has improved considerably in recent years, continuing its transformation from a long period of economic decline that saw the disappearance of much traditional industry. However, there is still more to be done to reduce economic disparities with the rest of Wales and the UK, to achieve full convergence with other parts of the EU, and to realise our ambition to be at the leading edge of economic development.

1.78 The headline economic position (traditionally measured through GVA per head of population) of West Wales and the Valleys lags behind that of Wales and the EU25 average, standing at just under 75% of the EU25 average. Two main factors help explain the economic under-performance of West Wales and the Valleys compared to the rest of the UK: lower value-added per worker (productivity) and a lower employment rate.

1.79 Lower value-added per worker across West Wales and the Valleys is partly explained by the sub-regions' industrial composition rather than Welsh workers being less productive than UK and EU counterparts. In addition, Welsh town and cities are relatively small, and much of Wales is sparsely populated and distant from major centres – leaving West Wales and the Valleys unable to benefit from strong agglomeration effects. The Programme area also falls short when benchmarked against other key drivers of competitiveness. For example, the region lags behind the UK for expenditure on R&D as a percentage of GVA, mainly due to low business R&D, which is, again, attributable to the industrial structure of the economy in West Wales and the Valleys. While Wales has seen an upturn in attitudes towards entrepreneurship, fewer businesses in West Wales and the Valleys use ICT compared to the UK, a pre-requisite for the development of an advanced economy.

1.80 The Programme area also suffers from inadequacies in traditional infrastructure. Transport can be used to overcome the lack of large agglomerations – joining up existing communities and facilitating the flow of goods and people in West Wales and the Valleys. There are challenges in terms of increasing traffic flows and congestion, the need to improve access to key services and employment centres while reducing environmental impacts, particularly vehicle emissions. The topography of the region also makes road and rail construction difficult and transport between communities which are not far as the crow flies can be non-existent or poorly developed. The progress that has been made in developing the economies of the coastal belts of north and south Wales has tended to exacerbate these transport problems. This is particularly true in south Wales, where there are very significant commuter flows from the Valleys to the major employment centres along the so-called M4 corridor, putting great pressure on the transport network in the Programme area. There is a need to address this challenge by developing sustainable transport solutions to reflect the travel-to-work patterns within the region.

1.81 Promoting the development of the Programme area as a vibrant economic base is, therefore, a priority. To facilitate that development, the Programme area needs also to be able to offer high quality, modern, well connected and attractively placed locations. Issues of basic infrastructure provision, the supply of business sites and premises, services, including sewerage and drainage, need addressing as does the challenge of pulling together sites of a useable size which may be in multiple-ownership. These issues can be perceived as real hurdles to private investors.

1.82 Despite considerable improvements in labour market conditions and growth in earnings across West Wales and the Valleys, the employment rate across the sub-region is still below the Welsh and UK average. The majority of this difference is explained by higher economic inactivity. The consensus in the economic literature is that falling demand for unskilled workers lies at the heart of high economic inactivity. Improving the skills of the working age population together with removing barriers to participation (poor health, access to services such as transport) are of paramount importance to improving their employment prospects. This is further addressed in the ESF Convergence Programme for West Wales and the Valleys.

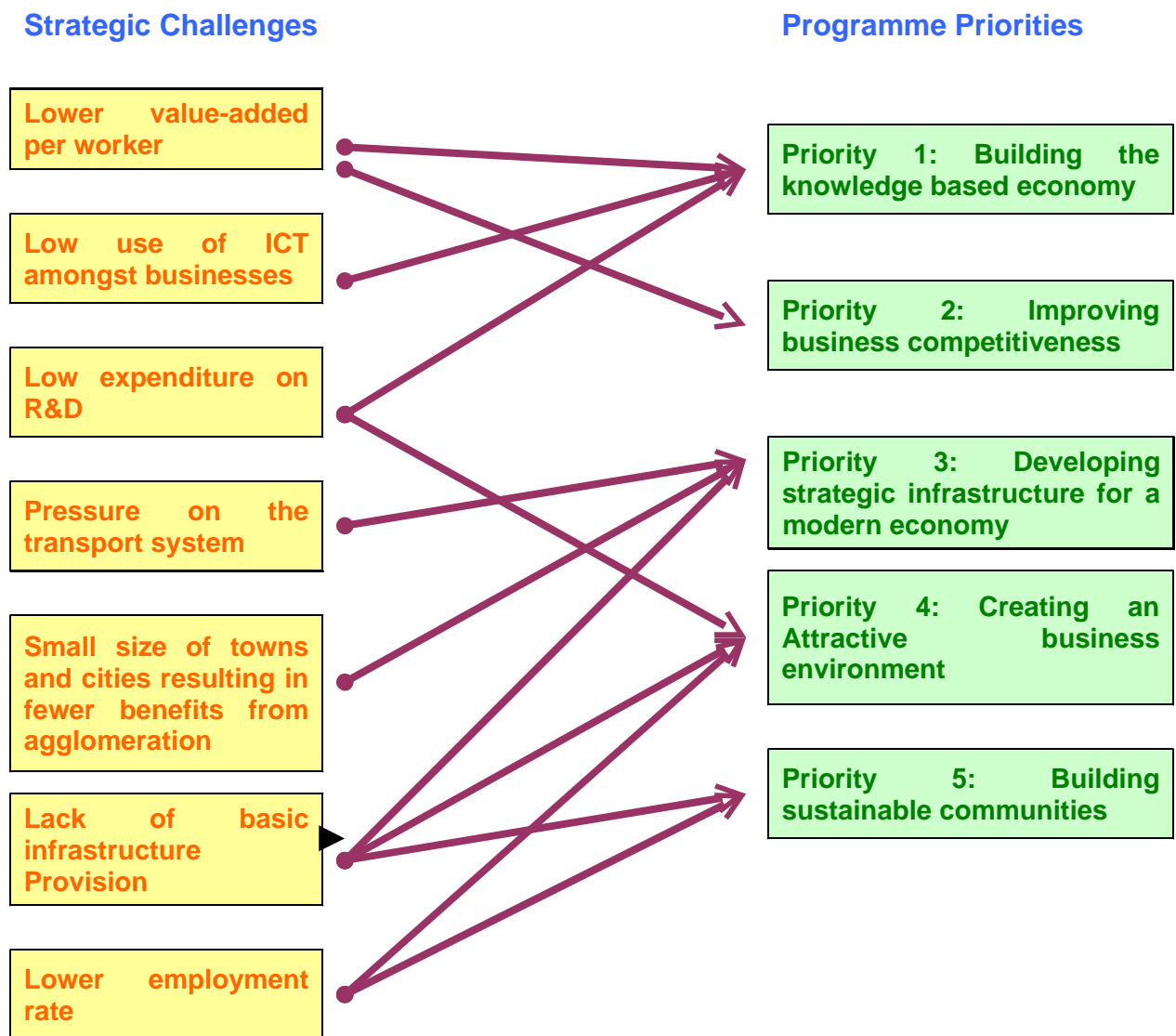
1.83 Encouragingly, however, the economy in West Wales and the Valleys has shown clear signs of improvement over recent years supported, in part, by the Structural Funds. This success is most apparent in the labour market, but has also been evident in developing private sector businesses and improving the infrastructure of the region. These improvements show that progress can and has been made in overcoming the economic and social problems of West Wales and Valleys.

AIM AND OBJECTIVES FOR THE ERDF CONVERGENCE PROGRAMME

1.84 The following objectives have been arrived at by an examination of the key challenges facing West Wales and the Valleys in the context of achieving sustainable economic growth. The SWOT analysis summarises the main

challenges and opportunities for the region over the next seven year period and the programme priority axes have been decided in this context. The separate ERDF and the ESF programmes should be viewed together, as a means of achieving our vision of West Wales and the Valleys of becoming a vibrant, entrepreneurial region at the cutting edge of sustainable economic development. The following diagram (Figure 12) shows how the main challenges lead to the chosen Priorities.

Figure 12. Links between the main Challenges and the Priorities



1.85 The overall aim of the Convergence programme is to:

To make West Wales and the Valleys a vibrant, entrepreneurial region at the cutting edge of sustainable development.

1.86 The objectives of the ERDF programme are to :

- promote a high value-added economy by improving knowledge and innovation for growth and increasing the utilisation of ICT;

- strengthen the economy by increasing the size and widening the range of the business stock and tackling market failures in relation to business advice, information and finance;
- equip the region with the physical infrastructure necessary for the development of a modern and competitive economy and to overcome 'agglomeration' deficits;
 - create an attractive business environment;
- build sustainable communities and promote sustainable integrated urban regeneration; and
 - ensure the efficient and effective management of the Programme.

1.87 The objectives of the complementary ESF programme are to:

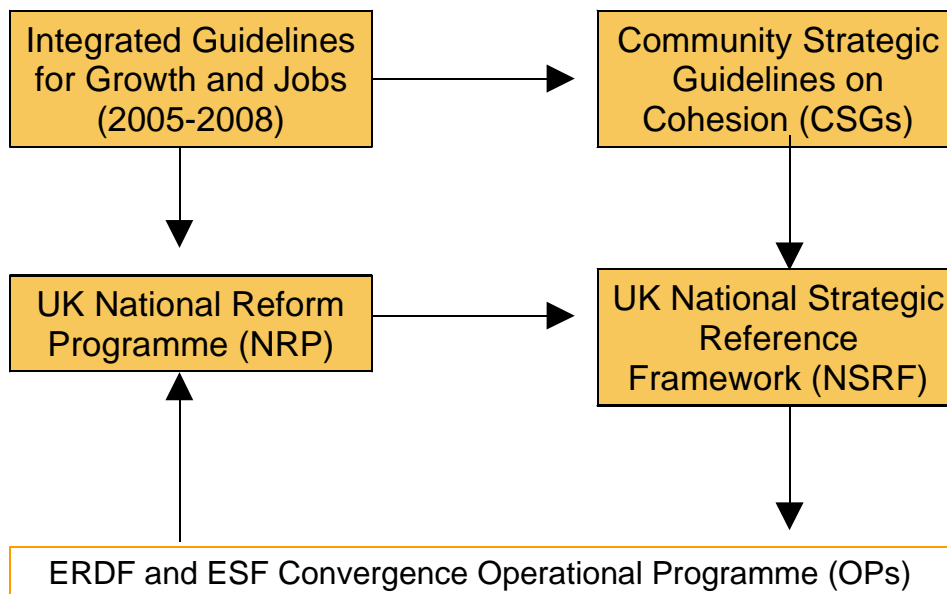
- supply young people with skills for learning and future employment;
- increase employment and tackle economic inactivity;
- improve skill levels and improve the adaptability of the workforce; and
- modernise and improve the quality of our public services by realising the aims of *Making the Connections*.

1.88 These objectives will support the delivery of the Lisbon agenda for growth and jobs for the people of West Wales and the Valleys, with complementary relationships between economic, social and environmental policies. The growing evidence of climate change and its wider consequences emphasise the importance of making sure that economic growth does not come at the cost of ever-increasing demands on the environment. In a region dependant on fossil fuels and with a limited public transport infrastructure, economic growth will inevitably tend to increase carbon emissions through greater use of energy and increased transport. However, the programme will see to offset these by a variety of measures – both programme actions such as promoting and developing renewable and low carbon forms of energy, and through the integration of environmental sustainability as a horizontal theme. Structural Funds will add value by supporting actions that increase resource efficiency and reduce carbon emissions through a requirement for high standards of environmental performance for new and refurbished buildings and premises. Also by improving the environmental performance of business through adoption of environmental management systems and promoting innovation in clean and energy efficient technology. Direct investment in environmental infrastructure will be directed at meeting renewable energy targets and in improving the region's performance in waste management. All projects will be expected to address the environmental sustainability theme by including appropriate opportunities to address the environmental issues that affect the region and the wider global environment.

POLICY RESPONSE

1.89 The Structural Funds' Regulations anticipate a more strategic approach to programming in the 2007-2013 period, with a strengthening of the focus of EU Cohesion policy on the Lisbon and Gothenburg agendas for growth, jobs and sustainable development⁵¹. Member States have approved a set of "Community Strategic Guidelines for Cohesion"⁵² (CSGs), which provides a framework for helping to deliver the Lisbon objectives as defined in the Integrated Guidelines for Growth and Jobs. Not all elements of this framework are relevant to all regions of the EU and each region must select the most appropriate combination of investments to deliver the growth and jobs agenda, taking account of its particular strengths and weaknesses.

Figure 13. Links between Operational Programme, CSGs and Integrated Guidelines



1.90 The CSGs establish that future Structural Fund programme should address three main priorities:

- Enhancing the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and

⁵¹ Common Actions for Growth and Employment: The Community Lisbon Programme, 20 July 2005 http://ec.europa.eu/growthandjobs/key/index_en.htm

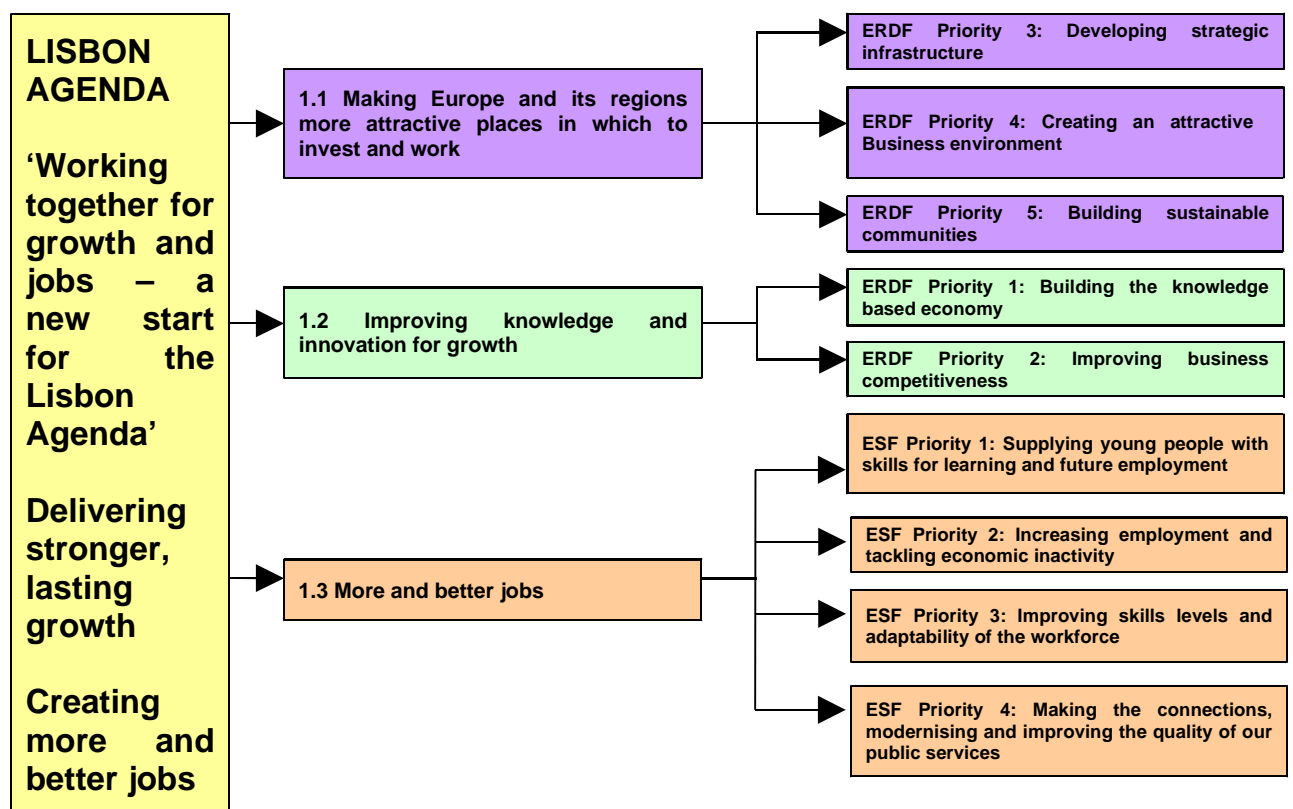
⁵² Community Strategic Guidelines on Economic, Social and Territorial Cohesion 2007-2013, Council of the European Union, 18 August 2006 http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/1180706_en.pdf

- Creating more and better jobs by attracting more people into employment, improving the adaptability of workers and enterprises and increasing investment in human capital.

1.91 All three CSG objectives are relevant to the Convergence strategy for West Wales and the Valleys, where investments will focus on actions to promote long-term competitiveness, job creation and sustainable development.

1.92 The objectives and priorities of the West Wales & the Valleys ERDF Convergence programme is consistent with the Lisbon Strategy and will contribute directly to the overall UK National Reform Programme (NRP), which in turn responds to the Integrated Guidelines for Growth and Jobs. This response includes actions to address the challenges of building an enterprising and flexible business sector, promoting innovation and R&D, widening opportunities for the acquisition of skills, improving employment prospects for the most disadvantaged and increasing innovation and adaptability in the use of energy and resources.

Figure 14. Link between CSG objectives and ERDF and ESF Convergence Priorities



1.93 The contribution of the Structural Funds to this programme of reform is set out in the UK National Strategic Reference Framework (NSRF). The NSRF provides a policy framework to inform the preparation of Operational Programmes (OPs) at national and regional levels. It includes an analysis of the UK's economic strengths and weaknesses and specifies the strategy chosen for the Convergence and Regional Competitiveness & Employment programme in each part of the UK. The UK's NSRF includes a separate chapter setting out the strategy for regional economic growth in Wales and the Structural Fund

priorities for both the Convergence and Regional Competitiveness programme. The Operational Programme is closely aligned with this policy framework.

1.94 The programme is designed to deliver our vision for creating *a vibrant entrepreneurial region at the cutting edge of sustainable development*. The key drivers to achieving this through the ERDF programme are to:

- help businesses to move continually up the value chain and increase the value-added per job, thereby raising productivity and earnings.
- create an attractive environment for people to live and work and invest, including through regeneration of the poorest communities.

1.95 The regional policy framework for supporting economic development in Wales has been developed in the context of *Wales: A Better Country*⁵³, the Welsh Assembly Government's broader strategic policy agenda. In particular, actions to promote economic development must occur alongside other elements of this strategic agenda – namely improving quality of life for everyone by advancing social justice, improving the environment, health and education, in line with the *Wales Sustainable Development Scheme – Starting to Live Differently*⁵⁴.

1.96 The economic development strategy is set out in *Wales: A Vibrant Economy*⁵⁵, (*W:AVE*) published in 2006 to set the strategic framework for the European Structural Funds programme 2007–2013, in particular the ERDF programme. Its vision is of a vibrant economy capable of delivering strong and sustainable growth by providing opportunities for all. The aims of *Wales: A Vibrant Economy* that take forward the Lisbon Agenda are:

- increasing employment by supporting job creation and stimulating growth across Wales;
- investing in the regeneration of deprived communities and stimulating economic growth across Wales;
- helping businesses to grow and increase value-added per job, output and earnings by:
 - investing in transport, ICT and other economic infrastructure;
 - attracting more high value-added functions to Wales and supporting businesses and sectors with strong growth potential;
 - improving the skills base and delivering more demand-led training tailored to the needs of businesses;

⁵³ Welsh Assembly Government's *Wales: A Better Country*:

http://new.wales.gov.uk/topics/sustainabledevelopment/sustainable_development_publicat/280578/?lang=en

⁵⁴ Welsh Assembly Government's *Wales Sustainable Development Scheme*:

<http://new.wales.gov.uk/docrepos/40382/40382313/403826/action-plan-e.pdf?lang=en>

⁵⁵ Welsh Assembly Government's *Wales: A Vibrant Economy*:

<http://new.wales.gov.uk/docrepos/40382/4038231141/4038211251/403821125/4038211251/wave?lang=en>

- helping businesses to become more competitive by supporting the drivers of business growth: entrepreneurship, innovation, investment and trade.
- ensuring that all economic programme and policies support sustainable development, in particular by encouraging clean energy generation and resource efficiency.

1.97 *W:AVE* features an approach which works through key sectors. These have been identified through a number of routes. In the first instance they represent those sectors in which Wales has a significant presence and strengths in well established industries such as automotive and aerospace. Next there are 'emerging' sectors where there has been rapid growth in recent years. The creative industries, financial services and environmental goods and services sectors would fall into this category. And finally, there are those sectors which could be viewed as more generic and which are to be found in many modern economies but which are regarded as likely to be particularly strongly represented in the region in the future given such issues as demographic trends. Social Care would fall into this latter group.

1.98 The sectors are also each at a different stage of development and maturity. Some, such as automotive, show strong vertical integration, require high levels of capital investment and are heavily reliant on research and development activity. Others comprise a large number of small independent companies linked specifically to the natural resources of the region and for whom market opportunities can be greatly improved by the development of stronger horizontal networks – leisure and tourism are good examples of sectors at this stage. And yet others, which may give the appearance of a degree of cohesion and do share a number of common interests, actually comprise a number of sub-sectors and feature companies which have a high degree of mobility and act largely independently. The financial services sector would fall into this latter category. Common factors, such as access to a good supply of highly skilled individuals is a pre-requisite of banking, insurance and investment companies and yet they often compete head to head in the market.

1.99 Given the disparate nature of the sectors and the firms that comprise them the Programme has been designed to provide integrated responses to the needs of sectors as they arise, rather than at the outset prescribe exactly what interventions specific sectors would be expected to access. For example, individual firms in the creative industries sector may seek advice and support and investment available through Priority 2 as well as using cutting edge ICT applications flowing from Priority 1 and to be co-located with enterprises of a similar nature to maximise the benefits accruing from the interaction within clusters.

1.100 The ERDF Convergence Programme is supported and complemented by the ESF Convergence Programme and that programme will take a strategic lead from relevant policies such as the *Learning Country 2*⁵⁶ and *Skills and*

⁵⁶ Welsh Assembly Government's *The Learning Country 2* consultation document, April 2006: http://new.wales.gov.uk/docrepos/40382/4038232/403821/the_learning_country_2/Learning_Country2_English.pdf?lang=en

*Employment Action Plan 2005*⁵⁷ which takes forward Wales' lifelong learning agenda and demonstrates Wales' commitment to achieving the objectives of the *European Employment Strategy*⁵⁸. Alongside this, the Welsh Assembly Government strategies *Extending Entitlement* and *14–19 Learning Pathways*⁵⁹ specifically tackle the high proportion of 16-18 year olds with no qualifications and who are not in employment, education or training, and *Reaching Higher*⁶⁰, the Welsh Assembly Government's strategy for extending access to higher education.

1.101 The *Wales Spatial Plan*⁶¹ provides the overall framework for future collaborative action between the Welsh Assembly Government and its partners to achieve sustainable economic growth and development in all parts of Wales. It sets a 20-year horizon for the development and investment necessary for the sustainable development of communities throughout Wales. It takes account of location differences and priorities and requires co-ordinated action at national, regional and local levels, such as the recent development of the Heads of the Valleys regeneration framework, as a coherent part of implementing the *Spatial Plan* in the south Wales Valleys, building on their important economic links with other parts of south east Wales. It also recognises the importance of cross-border and inter-regional connections.

1.102 Spatial planning is the consideration of what can and should happen where. It investigates the interaction of different policies and practices across regional space, and sets the role of places in a wider context. It goes well beyond 'traditional' land-use planning and sets out a strategic framework to guide future development and policy interventions, whether or not these relate to formal land use planning control. The vision for the *Spatial Plan* is:

"We will sustain our communities by tackling the challenges presented by population and economic change; we will grow in ways which will increase our competitiveness while spreading prosperity to less well-off areas and reducing negative environment impacts; we will enhance our natural and built environment for its own sake and for what it contributes to our well-being, and we will sustain our distinctive identity."

1.103 Within this there is recognition that 'one size' solutions do not fit all parts of Wales and different approaches are taken for the individual *Spatial Plan* areas:

⁵⁷ Welsh Assembly Government's *Skills and Employment Action Plan 2005*:

<http://www.learning.wales.gov.uk/pdfs/c5104-seap-report-e.pdf> - search='Skills and Employment Action Plan 2005 Welsh Assembly government'

⁵⁸ European Employment Strategy:

http://ec.europa.eu/comm/employment_social/employment_strategy/index_en.htm

⁵⁹ Welsh Assembly Government's *Extending Entitlement and 14-19 Learning Pathways*:

<http://new.wales.gov.uk/docrepos/40382/4038232/4038211/40382121/extending-entitlement-makin1.pdf?lang=en> and

http://new.wales.gov.uk/topics/educationandskills/policy_strategy_and_planning/learning_paths/?lang=en

⁶⁰ <http://new.wales.gov.uk/docrepos/40382/4038232/4038211/40382121/reachinghigher-e.pdf?lang=en>

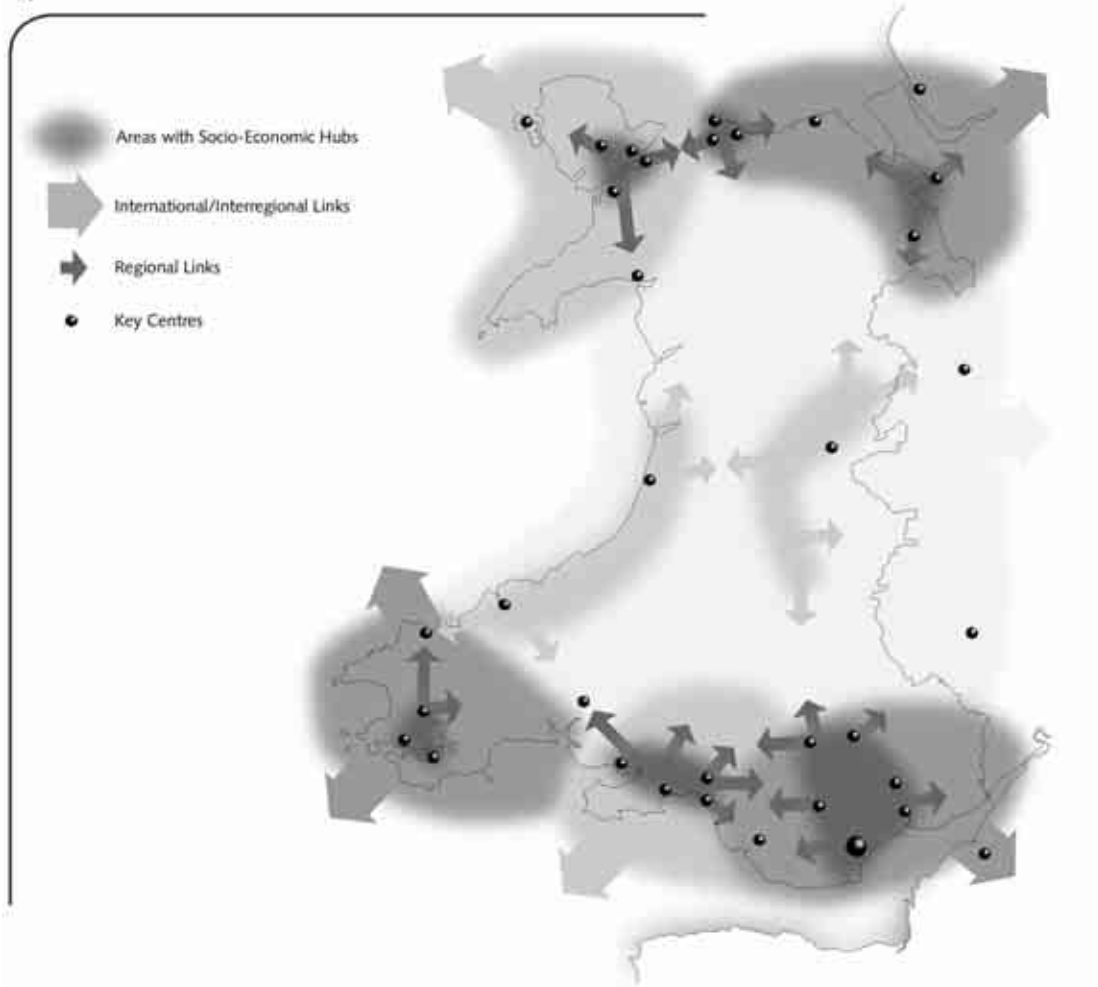
⁶¹ Welsh Assembly Government's *Wales Spatial Plan*:

<http://new.wales.gov.uk/about/strategy/spatial/?lang=en>

- North West: A high-quality natural and physical environment supporting a cultural and knowledge-based economy that will help the area to maintain its distinctive character, retain and attract back young people and sustain the Welsh language.
- The County of Denbighshire within North East: An area harnessing the economic drivers on both sides of the border, reducing inequalities and improving the quality of its natural and physical assets.
- The western counties of Central Wales: High-quality living and working in smaller-scale settlements set within a superb environment, providing dynamic models of rural sustainable development, moving all sectors to higher value added activities.
- The counties embracing the valleys of South East: An innovative skilled area offering a high quality of life – international yet distinctively Welsh. It will compete internationally by increasing its global visibility through stronger links between the Valleys and the coast and with the UK and Europe, helping to spread prosperity within the area and benefiting other parts of Wales.
- Swansea Bay: An area of planned sustainable growth and environmental improvement, realising its potential, supported by integrated transport within the area and externally and spreading prosperity to support the revitalisation of West Wales.
- Pembrokeshire: Strong communities supported by a sustainable economy based on the area's unique environment, maritime access and tourism opportunities.

Figure 15. Spatial Plan Vision

Spatial Vision



1.104 The Welsh Assembly Government launched “*A Science Policy for Wales 2006*” for consultation in November 2006. This policy provides a framework for promoting scientific and technical research and the application of such research to business problems, products and services. It focuses on three areas – aspects of Health and Life Sciences, technologies for a low carbon economy and activities which support sustained economic and social renewal. The Science Policy will inform investments which boost science related R&D and its commercialisation as part of the Convergence strategy for Knowledge and Innovation for Growth. Exploitation and commercialisation will be further supported by the refreshed “*Wales Innovation Action Plan*” which will be completed in the second half of 2007.⁶²

1.105 The new *Environment Strategy for Wales*⁶³ provides opportunities for further development of the environment as a fast growing economic sector in its own right and will be used to ensure that the Structural Fund interventions are targeted so as to deliver economic and environmental progress in tandem and in line with the principles agreed at the Gothenburg Council.

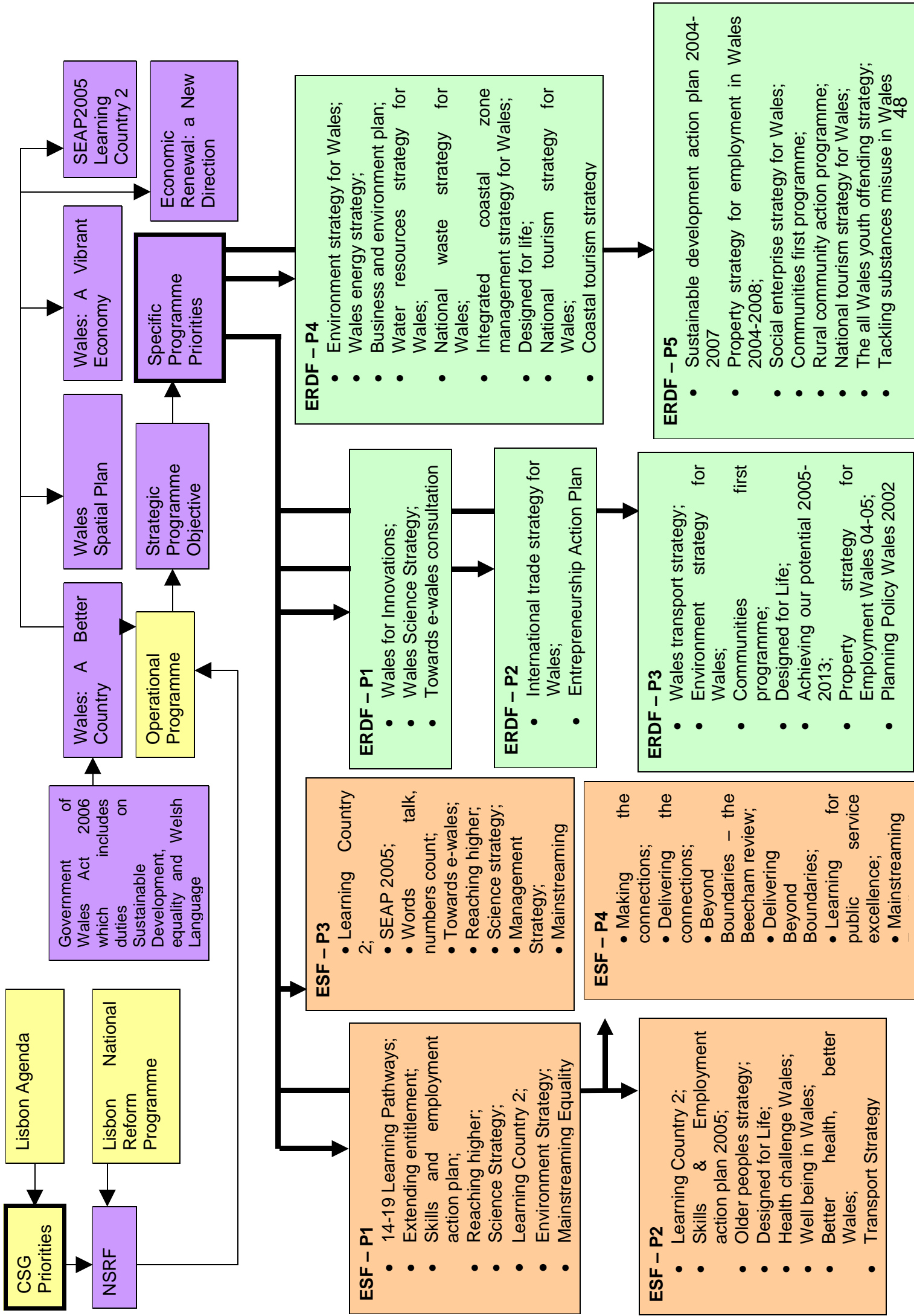
⁶² Welsh Assembly Government’s Innovation Action Plan:
<http://new.wales.gov.uk/about/strategy/strategypubs/935776/?lang=en>

⁶³ Welsh Assembly Government’s *Environment Strategy for Wales*:
www.countryside.wales.gov.uk/environmentstrategy

1.106 In *Making the Connections: Delivering Better Public Services in Wales*, the Welsh Assembly Government sets out its policy for improving the public service sector across Wales, including making it more accessible, coherent, effective and efficient, and more responsive to the needs of individuals, businesses and communities. This features as part of the ESF Operational Programme and, although it will only absorb a small proportion of the resources for the Convergence area, it will make an important contribution to developing the skills of public services managers, including the skills needed to lead and manage regeneration programme.

1.107 In addition to the key policies outlined above, the Convergence programme will be informed by a range of other thematic policies and strategies. These are highlighted in Chapter 4 in relation to the programme Priorities. The following policy map illustrates the connections between the various Wales level strategies and policies.

Figure 16. Wales Policy Map (overleaf)



Programme Modification 2010

1.108 In July 2010, following a comprehensive review, consultation and stakeholder engagement, the Welsh Assembly Government's Deputy First Minister and Minister for the Economy and Transport announced a fundamental change in the Assembly Government's approach to supporting economic development.

1.109 Economic Renewal: a New Direction⁶⁴ sets out the role devolved government would play in shaping the economy and the most favourable conditions and framework to enable private and third sector growth and success in Wales.

1.110 Economic Renewal focuses on concentrating public resources where they can add the most value i.e. as an enabler of growth for the economy. Key roles identified for government in order to underpin economic growth and wellbeing in Wales, are to provide high quality sustainable infrastructure and to make Wales a more attractive place to do business.

1.111 The Economic Renewal programme also advocates a reduction in direct support to business in favour of a targeted sector-based strategic approach and the promotion of an investment culture. Interventions should be better targeted in areas where Wales can gain a competitive advantage.

1.112 Innovation is also identified as a priority area and key driver of productivity, economic growth and long-term improvements in wellbeing. The role of R&D in stimulating innovation and the need to tackle barriers to investment are recognised.

1.113 On 3 March 2010, the European Commission launched the Europe 2020 Strategy to help the EU emerge stronger from the global economic crisis and move towards a more sustainable, more inclusive and more innovative economy in the next decade.

1.114 Building on the achievements and lessons learnt from Lisbon strategy, Europe 2020 put forward three mutually reinforcing priorities:

- Smart growth: developing an economy based on knowledge and innovation;
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy; and
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

1.115 The priorities of the Welsh Assembly Government's economic development strategy Economic Renewal: a New Direction, and the priorities

⁶⁴ <http://wales.gov.uk/topics/businessandconomy/help/economicrenewal/programmepapers/newdirection/?lang=en>

contained within this Operational Programme are fully aligned with the aims of Europe 2020, sharing common goals of promoting a knowledge economy and of social and environmental sustainability.

1.116 In line with Articles 33 and 65 of Regulation 1083/2006, this Operational Programme was revised to take greater account of changes in Welsh Assembly Government policy and in consultation with, and with the agreement of, the All Wales Programme Monitoring Committee.

CONCENTRATION OF RESOURCES

1.117 The Community Strategic Guidelines for Cohesion emphasise the importance of concentrating resources, both thematically and geographically. The aim is to focus on the investments that are required to increase long-term competitiveness, job creation and sustainable development. The Convergence programme will have a strong concentration on interventions that contribute to the Lisbon growth and jobs agenda, achieved by:

- Targeting 79% of the resources for the ERDF and ESF programme and 70% of ERDF Convergence resources on categories of investment identified in Article 9 and Annex IV of Regulation (EC) 1083/2006 of 11 July 2006 as supporting the objectives of Integrated Guidelines for Growth and Jobs, compared with the minimum target of 60%.
- Ensuring that the Convergence programme contributes to relevant priorities identified in the UK's National Reform Programme;
- Focusing programme priorities in line with Welsh Assembly Government key policies and strategies, including Wales: A Vibrant Economy, which is closely aligned with the Lisbon and Gothenburg strategies;
- Using the key sectors identified in W:AVE to focus resources of those with significant growth potential, in particularly the ERDF priority 2 (and the ESF priority 3);
- Using the framework of the Wales Spatial Plan to target resources on areas of need and opportunity;
- Implementing the programme through Strategic Frameworks to ensure project activity is focused on key programme objectives and is effectively co-ordinated; and
- Fostering synergies with other EU and national policies on the ground.

1.118 The detail of the financial allocations is contained in Chapter 7 but, in summary, Priority 1, which is central to achieving this vision, shows an increased allocation. Spending in the areas of environment, energy and infrastructure is also increased, although there is a shift of emphasis within

infrastructure towards transport and energy, reflecting the European Commission's assessment of the UK's National Reform Programme, as well as a shift towards renewable energy in recognition of the challenges of climate change. Spending in the area of regeneration and community development will be reduced and will be refocused to reflect the importance of interventions which more directly contribute to jobs and growth.

FRAMEWORK OF PRIORITIES

1.119 In line with the European Commission's agenda for simplification of Structural Funds programming and implementation, the new Convergence programme will be implemented through a simplified structure, comprising separate ERDF and ESF Operational Programmes. The ERDF Programme will contain a framework of five main priorities, plus the Technical Assistance priority. There will be no 'measure level' programming, although each priority will include a number of specific 'Themes' which will be used to ensure a balanced approach to implementation. The five priorities are:

ERDF Priority 1: Building the Knowledge Based Economy

1.120 The objective of this priority is to promote a high value-added economy by improving knowledge and encouraging innovation. It will build business capacity to become more innovative, develop and take-up improved and new products, processes and services. This will be done by developing the research, technology and innovation capacity and the ability to commercialise and exploit research. It will also enable businesses to grow and to improve their competitiveness and productivity through technological advances, including through the spread and utilisation of Information and Computer technologies.

1.121 With the low level of business R&D expenditure compared to other parts of the UK, businesses need to be encouraged to collaborate in order to create a 'virtual agglomeration effect'. Higher education, further education and business will be encouraged to work together in order to promote technological development, transfer and commercialisation and to increase their access to the EU's Framework Programme 7. One area where Wales is a market leader is in the environmental goods and services sector, and the active development of this sector will help Wales face up to the challenges of climate change, developing markets for alternative technologies and renewable energy. Low business density limits access to markets and opportunities for networking, and contributes to lower GDP. In line with the strategy set out in *Wales: A Vibrant Economy*, sectors with potential for high growth will be targeted. Utilising the benefits of an Information Society is particularly relevant for those regions on the periphery of major economies such as West Wales and the Valleys, as well as the more rural and other remote areas within regions.

1.122 Themes under this priority will focus on:

- Building the region’s research, technology and innovation capacity and its ability to commercialise and exploit the outcome of research and ideas by fostering research, technology and innovation;
- Promoting productivity by increasing the utilisation of and demand for the benefits of Information and Communication Technologies (ICT) and providing targeted ICT infrastructure.

1.123 Table 3 illustrates how this priority will contribute to the EU and UK policy priorities. This priority will contribute to categories 1, 3, 4, 7, 11, 13, and 14 of the categories of Structural Fund investment identified in Article 9 and Annex IV of Regulation (EC) 1083/2006.

Table 3. Contribution of ERDF Priority 1 to EU and UK policy priorities

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL 7: Increase and improving investment in R&D GL 9: Facilitate innovation and uptake of ICT GL10: To strengthen the competitive advantage of the European industrial base
Community Strategic Guidelines	GL1.2.1: Increase and better target investment in RTD GL1.2.2: Facilitate innovation and promote entrepreneurship GL1.2.3: Promote the information society for all
UK National Reform Programme	3.45-3.53 Increasing business investment in R&D and innovation 3.27-3.28 Increasing use of ICT
UK NSRF	Promoting a high value added Welsh economy (183)

ERDF Priority 2: Improving business competitiveness

1.124 Another factor contributing to West Wales and the Valleys’ poor economic performance is the lower value-added per worker, partly explained by the region’s historical industrial structure. In terms of output per head individuals in West Wales and the Valleys are no less productive than elsewhere in the UK. However, again due in part to the industrial of the Programme area, West Wales and the Valleys has lower business start-up; the Programme area is rich in those sectors such as manufacturing and agriculture that have relatively high entry barriers and low rates of churn, leading to overall lower entrepreneurship and diversification.

1.125 *Wales: A Vibrant Economy* identifies ten sectors widely recognised as important for future economic growth. These are: automotive; aerospace; agri-food⁶⁵; high technology; pharmaceuticals/bio-chemicals; financial services; creative industries; construction; hospitality, leisure and tourism; and social care. In some cases, such as automotive and automotive, Wales has well founded centres of expertise or in the case of hospitality, tourism, leisure and

⁶⁵ Primary processing of agricultural products will not be eligible for support under the ERDF.

have been build on the region's natural advantages. Other sectors, such as financial services and the creative industries have shown strong growth in recent years. All ten have major growth potential. There is also a range of other sectors and clusters of importance to the development of a sustainable economy, including energy and environmental-related sectors. Further sectors may be identified following more detailed sectoral and structural analysis of change in the Welsh economy, such as the environmental goods and services sector referred to above.

1.126 Following the publication of Economic Renewal: a New Direction, business support in Wales is to focus upon 6 sectors: ICT; Energy and environment; Advanced materials and manufacturing; Creative industries; Life sciences and Financial and professional services. These sectors correspond to around one third of private sector employers in Wales in business turnover and employment terms. They have demonstrated above average growth at the UK level and are projected to perform well in the future. Particular weighting has been given to those sectors which are enablers within the wider economy, for example in providing opportunities for exploiting ICT, creating green jobs, resource efficiency and moving to a low carbon economy

1.127 The objective of this priority is, therefore, to strengthen the economy by increasing the size and widening the range of the business stock and tackling market failures in relation to business advice, information and finance.

1.128 Themes under this priority will focus on:

- Supporting entrepreneurship and assisting the growth and expansion of businesses, and supporting and accelerating Welsh exports; and
- Improving access to business finance in clearly targeted areas;

1.129 Following the publication of Economic Renewal, the focus of the Priority will reflect the progression from a grant to an investment culture.

1.130 Table 4 illustrates how this priority will contribute to the EU and UK policy priorities. This priority will contribute to categories 5 and 9 of the categories of Structural Fund investment identified in Article 9 and Annex IV of Regulation (EC) 1083/2006.

Table 4. Contribution of ERDF Priority 2 to EU and UK policy priorities

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL10: Contribute to a strong European industrial base. GL15: Promote a more entrepreneurial culture and create a supportive environment for SMEs
Community Strategic Guidelines	1.2.2 Facilitate innovation and promote entrepreneurship 1.2.4. Improve access to finance
UK National Reform	3.19-3.24 Promoting entrepreneurship

Programme	Improving access to finance 3.25 Improving access to finance
UK NSRF	Creating a favourable business environment (184)

ERDF Priority 3: Developing the strategic infrastructure for a modern economy

1.131 This Priority aims to equip the region with the physical infrastructure necessary for the development of a modern and competitive economy.

1.132 A further factor contributing to lower economic growth is the lack of an 'agglomeration' effect in West Wales and the Valleys. While other regions benefit from the economic mass generated from larger urban areas, often cities, West Wales and the Valleys has a more dispersed, often rural, population. Towns and cities in West Wales and the Valleys are relatively smaller and more distant from major centres. These agglomeration effects can be stimulated by appropriate investment in an efficient and effective transport system, facilitating the movement of goods and people and making towns and villages accessible and attractive environments. These characteristics also have an important bearing on the attractiveness of the Programme area to private sector investment where actual costs can exceed anticipated returns. There is evidence that the Programme area has lost mobile investments for this reason. In these circumstances there is a case for public investment in the economic infrastructure including transport and sites and premises, to act as a catalyst for such investment and the economic benefits these will bring. Sites and premises investments can also have significant employment and regeneration effects, if properly targeted.

1.133 This priority will focus on strengthening the region's strategic economic infrastructure, including transport, sites and premises and targeted investment in the learning infrastructure.

1.134 Themes under this priority will focus on:

- Supporting sustainable transport solutions to promote agglomeration and increase the accessibility of markets;
- Supporting the strategic infrastructure including targeted investments in sites and premises and the educational infrastructure, and sustainable integrated urban regeneration schemes through the implementation of a JESSICA Financial Engineering Instrument.

1.135 Table 5 illustrates how this priority will contribute to the EU and UK policy priorities. This priority will contribute to categories 9, 16, 21, 23, 24, 26, 30, 50, 52, 61 and 75 of the categories of Structural Fund investment identified in Article 9 and Annex IV of Regulation (EC) 1083/2006.

Table 5. Contribution of ERDF Priority 3 to EU and UK policy priorities

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL10: To strengthen the competitive advantage of the European industrial base GL16: Expand and improve European infrastructure GL18: Promote a life cycle approach to work GL19: Enhance work attractiveness GL23: Expand and improve investment in human capital GL24: Adapt education and training systems
Community Strategic Guidelines	GL1.1.1 Expand and improve transport infrastructures GL1.1.2 Strengthen the synergies between environmental protection and growth. GL1.3.1 Attract and retain more people in employment and modernise social protection systems. GL1.3.3 Increase investment in human capital through better education and skills GL4.1 Making Europe and its regions more attractive places to invest and work
UK National Reform Programme	2.23-2.25. Supporting the economy through the provision of efficient and reliable inter-regional transport solutions and improving accessibility 3.91-3.102 Protecting the environment through sustainable transport solutions 3.79-3.90 Providing more flexible pathways through education and training.
UK NSRF	Promoting a high value added Welsh economy (183) Building sustainable communities (185)

ERDF Priority 4: Creating an Attractive Business Environment

1.136 The objective of this priority is to facilitate adaptation to climate change and improve resource efficiency to optimise opportunities for sustainable growth and environmental improvement by the provision of clean and renewable energy, improved waste management facilities, reduction of environmental risks and promoting sectoral growth in allied industries.

1.137 A high quality, attractive environment plays a key role in encouraging business investment and in attracting people to live and work in an area. This is of increasing importance in West Wales and the Valleys where some rural areas are experiencing in-migration. Preserving and enhancing this critical asset is an important driver for economic growth and a sustainable economy, as well as quality of life. There is considerable potential to improve and promote the sustainable management of these resources in a way that will create job opportunities and improve the socio-economic conditions of local communities. Healthier lifestyles will be encouraged through promotion of active recreation linked to the natural environment and through provision of access to green-space in urban areas. These initiatives will help with efforts to reduce obesity which, in common with many other developed countries, is an increasing problem in the region.

1.138 This priority will promote the protection and improvement of the environment and help respond to environmental risk. This will include developing clean and renewable energy and encouraging energy efficiency, supporting waste management initiatives, and exploiting the economic potential of the region’s maritime and inland water assets.

1.139 Themes under this priority will focus on:

- Increasing the supply of clean and renewable energy, while also managing the demand for energy;
- Managing and mitigating environmental risk and developing the environmental infrastructure; and
- Promoting the environment as a driver for economic growth.

1.140 Table 6 illustrates how this priority will contribute to the EU and UK policy priorities. This priority will contribute to categories 6, 33, 39, 40, 41, 42, 43, 44, 49, 54, 55 and 56 of the categories of Structural Fund investment identified in Article 9 and Annex IV of Regulation (EC) 1083/2006.

Table 6. Contribution of ERDF Priority 4 to EU and UK policy priorities

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL11 Encouraging the sustainable use of resources and strengthen the synergies between environmental protection and growth GL16: Expand and improve European infrastructure
Community Strategic Guidelines	GL1.1.2 Strengthen the synergies between environmental protection and growth GL1.1.3 Address Europe’s intensive use of traditional energy sources.
UK National Reform Programme	3.82–3.91 Protecting the environment through sustainable and innovative resource use.
UK NSRF	Promoting a high value added Welsh economy (183)

ERDF Priority 5: Building sustainable communities

1.141 The physical appearance of the built environment alongside the availability of amenities are recognised as factors in making places attractive to live and work. Investments in raising the quality of the physical assets of deprived communities, recognising the changing role of places, will bring positive externalities if approached in the right way. Despite considerable improvements in labour market conditions and growth in earnings across West Wales and the Valleys the employment rate across the sub-region is still below the Welsh and UK average, with concentrations of economic inactivity and deprivation in particular parts of the region.

1.142 The objective of this priority is, therefore to provide the physical and community infrastructure necessary to support the development of vibrant local economies. In so doing, these communities will be in a position to benefit from the spread of employment opportunities and economic growth across all areas and the creation of greater occupational diversity and higher wages essential to achieving a modernised knowledge economy. This priority will be taken forward within the framework of the Wales Spatial Plan, with a strong emphasis on increasing economic opportunities. This includes the need to encourage the third sector to develop in ways that provide sustainable employment opportunities, support community economic action and facilitate access to services of economic interest to the local population.

1.143 This priority will focus on tackling deprivation and improving local economies in an integrated way across the most deprived communities of West Wales and the Valleys, bringing together physical regeneration with community economic development. It will enable people living in our most deprived communities to contribute to, and benefit from, the achievement of the Lisbon objectives for growth and jobs.

1.144 Themes under this priority will focus on:

- Supporting physical regeneration, redeveloping derelict brownfield sites, regenerating degraded urban and rural landscapes, and improving the quality of public spaces; and
- Community economic development, improving access to and quality of services of a general economic interest in the most deprived communities.

1.145 Table 7 illustrates how this priority will contribute to the EU and UK policy priorities. This priority will contribute to category 61 of the categories of Structural Fund investment identified in Article 9 and Annex IV of Regulation (EC) 1083/2006.

Table 7. Contribution of ERDF Priority 5 to EU and UK policy priorities

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL19 Ensure inclusive labour markets for job seekers and disadvantaged people
Community Strategic Guidelines	GL1.1.2 Strengthen the synergies between environmental protection and growth GL2.1 The contribution of cities to growth and jobs GL2.2 Support the economic diversification of rural areas
UK National Reform Programme	3.82-3.91 Protecting the environment through sustainable and innovative resource use 4.6-4.29 Delivering employment opportunity for all
UK NSRF	Building sustainable communities (185)Wales

ERDF Priority 6: Technical Assistance

1.146 A separate Technical Assistance (TA) priority will provide support for programme management and implementation, including communications and publicity, research and evaluation and targeted capacity building actions. This priority will contribute to categories 85 and 86 of the categories of Structural Fund investment identified in Article 9 and Annex IV of Regulation (EC) 1083/2006.

APPROACH TO ADDED VALUE

1.147 The driving principle of this Operational Programme is that it will bring additional investment to the region which it would not otherwise experience. The value of the European Structural funds' contributions are themselves very significant in real terms and these will act as a catalyst for further investment. This Programme has been designed to ensure that this investment will be utilised in a way that will have material, positive impacts on the region in the absence of which those impacts would not occur. The starting point to this process of assuring that the Programme yields long lasting and added value has been the articulation in the Analysis (Chapter 2) of the challenges still facing the region in terms of its economy, environment and communities. The Strategy, and the actions within the Priority Axes have been developed in full consultation with the key stakeholders and partners while taking account of the outcomes from the current programmes, the progress made to date and the general movement in the economy and society as a whole and, most importantly, how it can best be aligned to achieve the goals of the Lisbon and Gothenburg Agendas. The synergies between European and national policies and their emphasis on achieving economic and social cohesion are especially strong and highly relevant in relation to West Wales and the Valleys

1.148 This groundwork has highlighted the need to build on investments supported under current and previous programme, drawing on the evaluation of their impact and the lessons learned in their implementation. It is evident also that the European Structural Funds are adding value to the implementation of national policies and programme in Wales both in terms of substance and process. Under the current programmes, it is estimated that some 40,500 net new jobs will have been created. At the same time, the most recent data shows GDP per head to stand at approximately 77% of the average for EU 25 – a tangible improvement over the figure of 75% in December 2005 and coinciding with the coming to fruition of many of the interventions supported under the current Programmes. This progress is testimony to the added value that these programmes have brought and this emphasis on added value will be carried forward into the new programme period.

1.149 In terms of the Programme's overall aim and objectives, the Structural Funds will complement national policies and support a closer alignment with EU level policies for supporting economic development. Making the most of

these synergies will help to ensure that maximum value is derived from the new Programme. Multi-annual programming also provides a firm basis for longer term action aimed at addressing more fundamental or intractable issues and effecting transformational change.

1.150 In terms of specific investments, the Structural Funds will add value to current provision in a number of ways. Examples are given in the description of each of the Priority Axes. This includes introducing new services or extending the provision of existing services, for example by providing additional investments in the economic infrastructure that would not otherwise have been there or providing new R&D capacity. Value can also be added by improving the quality of services or infrastructures, for example, providing more sophisticated innovation support services to drive the knowledge economy. Furthermore, there is an opportunity to bring forward investments that might be planned for some point in the future, for example, taking forward regeneration activities identified by the Wales Spatial Plan Groups, or bringing forward investments in transport or waste infrastructure. The Structural Funds will also add value through increasing the focus on equal opportunities for all and environmental sustainability through implementation of the cross-cutting themes.

1.151 Value from the Structural Funds also comes through process. One key benefit is the interaction encouraged between partners at national, regional and local levels in the shared endeavour of promoting economic growth. Such partnership working has been a key feature of the preparatory phase of this new Programme and will be extended to include partnership at the Spatial Plan Area level and the arrangements for Strategic Frameworks. The Funds also promote the principles of transparency, fairness and equal opportunities and these principles will continue to be reflected in the arrangements for dispersing funds. Finally the Structural Funds' programmes encourage innovation and provide a platform for working with other regions and a wide range of organisations to share best practice.

CROSS-CUTTING THEMES

1.152 In addition to the priorities outlined above, two cross-cutting or horizontal themes will be integrated into all aspects of the ERDF Convergence programme in accordance with the requirements of EU Regulation 1083/2006 Articles 16 and 17. The strategy for implementing the two cross-cutting themes of equal opportunities and environmental sustainability is addressed in more detail in Chapter 5.

Environmental sustainability

1.153 The growing evidence of climate change and its wider consequences emphasise the importance of making sure that economic growth does not come at the cost of ever-increasing demands on the environment. Negative effects of growth will be offset both by specific actions, and by the integration of environmental sustainability throughout the programme as a horizontal theme. All projects will be expected to address the environmental sustainability theme by including appropriate opportunities to address the environmental issues that affect the region and the wider global environment.

Gender equality and equal opportunities for all

1.154 The need to recognise the contribution that all individuals can make is an important one. The European Roadmap for Equality between men and women 2006–2010⁶⁶, and the package of measures introduced in 2000 by the European Union designed to enforce the right of people everywhere to be treated equally and to strengthen respect for human rights throughout the European Union⁶⁷. These directives reflect a growing recognition of the benefits of diversity for the economy and for society as a whole. Equal Opportunities will be integrated as a cross-cutting theme into the ERDF Convergence programme in order to promote equal access for all to opportunities in the Convergence programme. Assistance will be provided, for example, for actions that enable access to business support measures, including training and targeted interventions for previously excluded groups, particularly Black and minority ethnic people and disabled people. ERDF funded activities will be encouraged that challenge gender stereotyping, support women and men into non-traditional areas of work, and encourage work life balance, along with approaches that complement the theme of gender equality in the ESF programme.

1.155 The range of actions that will be taken within the priorities and themes to promote horizontal integration of the programme's environmental sustainability and equal opportunities objectives are demonstrated by matrix analyses (Annexes I and J).

⁶⁶ The European Road Map for Equality between men and women 2006-2010 http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=136

⁶⁷ http://ec.europa.eu/employment_social/fundamental_rights/legis/legln_en.htm

COMPLEMENTARITY BETWEEN ERDF AND ESF PROGRAMME AND OTHER EU POLICIES AND FUNDING INSTRUMENTS

ERDF and ESF

1.156 The ERDF and the ESF Convergence Programmes for West Wales and the Valleys have been developed together, ensuring that the priorities identified for the two programmes will complement and add value to each other. There are close linkages especially in the areas of innovation and higher level skills, where delivery of the ESF elements will support the innovation initiatives, and also in the area of building sustainable communities, where getting people into sustained employment is recognised as critical for long-term well being of individuals, families and thriving communities. Increasing employment is a key driver of economic growth and one of the factors that explains West Wales and the Valleys' productivity gap. The programmes will work together to support the shared vision of a vibrant Welsh economy.

1.157 The Convergence programme will seek to maximise synergies between ERDF and ESF interventions. Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In order to promote coherent implementation of actions under this Priority, a maximum of 10% of the EU contribution to Priorities 1, 2 and 5, and a maximum of 5% of Priority 4, will be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared. The approach to deploying this flexibility is outlined in respect of each of the relevant Priorities in Chapter 4.

EAFRD and EFF

1.158 In line with Article 37(1) of EC regulation 1083/2006, strict demarcation criteria and mechanisms for co-ordination between the ERDF and ESF on the one hand and the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) on the other are set out below. This explains how the Welsh Assembly Government will ensure that there is maximum synergy and value for money, while avoiding duplication or double-funding.

1.159 As a general principle, ERDF funded activities will primarily address rural issues as part of wider regional, sub-regional or national activity contributing to improved economic performance or as part of integrated employment and skills programmes. This will include interventions that help to develop the knowledge based economy at a strategic level, enable small

and medium sized enterprises to become more competitive and more efficient in their use of natural resources, building sustainable communities, and increasing employment by supporting appropriate economic infrastructure investments.

1.160 RDP funding will be focussed on supporting diversification of rural economies at the local level and on improving the quality of life in rural areas. This includes interventions in agriculture, including supporting innovative farm diversification, forestry and food processing. The EFF programme will provide the support to develop and manage viable and sustainable and competitive marine and inland fisheries, including aquaculture, as an integral part of coherent policies for safeguarding the environment. The EFF will also support the processing and marketing of fisheries products and of inland fishing, as well as carrying out the objectives of the Common Fisheries Policy and developing enterprises in the fisheries sector.

Demarcation and Complementarity

Priorities 1 and 2

1.161 ERDF Funding will not be available for agriculture, forestry or fisheries, enterprises or enterprises engaged in the primary processing of agricultural, forestry or fisheries products. This will be clearly stated in the eligibility rules and this eligibility requirement will apply across all Structural Fund Programmes. The ERDF will not support agri-food schemes or primary processing of agricultural and / or forestry products. This principle will apply equally to EFF in respect of fish and shellfish products and processing.

1.162 The most scope for complementarity under these two priorities exists in how specific business support and financing instruments for rural development fit together. This will be referenced in the relevant Strategic Frameworks.

1.163 Scope for complementarity also exists in actions to improve both the coverage of first generation broadband and the availability of Next Generation Broadband to businesses and homes. The detailed demarcation criteria and guidance on complementarity is included in the eligibility rules and the relevant Strategic Framework.

Priority 3

1.164 There are no issues for demarcation in transport actions, as these are outside the scope of the RDP and the EFF. In terms of the development of business sites and premises, the RDP will not be funding the large scale sites envisaged in this priority. Actions under the JESSICA Financial Instrument will be limited in terms of eligibility to urban areas and of a scale that would not be funded through the RDP. Complementarity between ERDF infrastructure investments and RDP local actions will be encouraged through the planning

mechanisms using the local action plans and the spatial plan area groups (see below). Community transport is covered under Priority 5, below.

Priority 4

1.165 The ERDF will target schemes that have potential economic benefits and where environmental enhancement is undertaken for a clear economic outcome, for example the use of innovative technologies to address the challenges of clean energy generation. The provisions of 1698/2005 require all beneficiaries of Axis 2 of the RDP to be either registered agricultural and / or forestry businesses and support under the RDP will be limited to this target group; these groups will not be eligible for ERDF funding. The EFF will focus on marine protection issues; fishing enterprises will not be eligible for ERDF funding.

1.166 There are opportunities for joint working on the achievement of wider environmental targets including climate change, water quality / quantity, air pollution, waste management etc. In addition, there is potential for synergy between the activities of different land owners on adjacent areas and links with community focused environmental and biodiversity improvements. Synergy with EFF is most likely in coastal areas where activities supported under ERDF Priority 4 could enhance marine focused activities. Beneficiaries, however, will be exclusive to each fund.

Priority 5

1.167 ERDF funded activity under the Building Sustainable Communities will focus on supporting integrated regeneration to achieve a clear economic outcome, while the RDP activities will focussed primarily on diversification of the rural economic base and improving the quality of life in rural areas. Specific priorities for the ERDF will be agreed by the Spatial Plan Area Group and will be detailed in the Integrated Regeneration Strategic Framework for that area. While there may be some very minor overlaps in the broad scope of *possible* activities, for example, with community transport appearing in both programmes, the planning mechanisms in place will ensure that there is no overlap in the implementation of these actions. The RDP 2007-2013 funded activity will occur within a single local authority area or through similar projects taking place in adjacent local authorities using co-operative working. In order to enhance complementarity, the RDP local development plans will be agreed in conjunction with the Spatial Plan area group, and vice versa.

1.168 With regard to the EFF, actions specific to that sector or the sectoral interests of the beneficiaries and their families will be funded through the EFF. These will be outside the scope of the ERDF.

1.169 There is considerable scope for adding value to RDP and EFF activity through the ERDF programme, including by providing physical infrastructure as part of integrated regeneration programme that is not possible under either of these programmes.

Further guidance and appraisal mechanisms

1.170 The Welsh Assembly Government recognises the need to take account of the demarcation and complementarity set out above in the implementation of the ERDF programme. This will be done in three ways:

- Cross membership of the respective PMCs for the Structural Funds, the EAFRD and the EFF;
- A specific statement in the Structural Funds' eligibility rules that farmers and those engaged in primary processing of agricultural, fisheries or forestry products are not eligible for support from the ERDF for these activities; and
- External guidance for potential project applicants, developed jointly with staff working on the RDP and the EFF programme for Wales.

1.171 To eliminate the potential for double funding and to maximise complementarity at a project level, further communication will be made between the respective teams at application stage. As part of the WEFO process, applicants will need to show how their project fits with the relevant strategies and programme. Part of this will be the RDP and the EFF and WEFO appraisal officers will ensure that where any project has the potential to fit into the demarcation or complementarity areas as outlined above, the relevant officers will be consulted and rigorous appraisal will be carried out. Post approval, projects will be subject to strict monitoring to ensure that the terms of the approval are adhered to and any subsequent request to amend a project will be given equally careful consideration.

1.172 A reciprocal arrangement will be introduced for projects submitted under the RDP and EFF.

Other European initiatives

1.173 The Welsh Assembly Government welcomes the European Commission's JESSICA and JEREMIE initiatives. Both of these initiatives are operated jointly between the European Commission (DG Regio), the European Investment Bank (EIB) and the European Investment Fund (EIF), and open up options for lending facilities to complement ERDF activities. **JEREMIE** (Joint European Resources for Micro to Medium Enterprises) is a micro-financing facility within the EIB drawing on resources from both Structural Funds and the EIB. The objective would be to create a new source of capital for the kind of businesses (e.g. start-ups) that often have difficulty accessing finance. **JESSICA** (Joint European Support for Sustainable Investment in Cities Areas) is an optional facility offering Member States and Managing Authorities the possibility to allocate funds from Operational Programme to Urban Development Funds or Holding Funds.

1.174 The UK participated in a scoping exercise as part of phase 1 of JEREMIE. Carried out by the EIF and SBS, this took the form of a gap analysis and evaluation of venture capital instruments within the UK. A JEREMIE report for Wales is being produced in partnership between the EIF and the Welsh Assembly Government through Finance Wales, and its recommendations will be taken into account in determining any future Wales engagement in the programme. Similarly, opportunities to make use of JESSICA will be considered when they arise.

1.175 Other European policies and instruments such as the Research Framework programme 7⁶⁸ are dealt with under ERDF Priority 1, and the Employment and Skills and Lifelong Learning Strategies are discussed in the ESF Programme.

MONITORING AND EVALUATION OF PROGRESS

1.176 The Welsh Assembly Government considers high quality monitoring and evaluation to be essential for effective programme management and evidence-based policy decision making. Monitoring and evaluation made an important contribution to the management of the 2000-2006 Structural Funds Programme in Wales and the lessons learned from monitoring and evaluation have been taken on board in the design of the 2007-2013 Structural Funds Programme. Monitoring and evaluation will continue to have key roles to play in maximising the quality and effectiveness of the 2007-2013 Programme.

1.177 The Welsh Assembly Government's approach to assessing the success of the Structural Funds Programme is based around:

- tracking progress of a range of economic indicators, notably employment, earnings and GVA, in absolute terms and relative to other parts of the UK and EU;
- monitoring against the indicators set for individual priorities, grossed up to programme level;
- programme-level evaluation;
- strategic framework-level evaluation; and
- project level evaluation.

Tracking indicators

1.178 The high level tracking indicators set out in *W:AVE* have been developed to provide a broad and robust picture of the fundamentals of sustainable economic growth. They will be used both to monitor progress over time and to compare Wales against other countries and regions. Many of

⁶⁸ European Commission's Research Framework programme 7 (FP7) for 2007–2013 'Building the Europe of Knowledge': http://ec.europa.eu/research/future/index_en.cfm

these tracking indicators are also available at NUTS 2 level and will therefore be used, in addition to other appropriate indicators, to provide a balanced assessment of progress in the West Wales and the Valleys economy. Where data are not available at NUTS 2 level, appropriate alternative indicators have been identified. Progress will also be tracked against selected Lisbon indicators, many of which overlap closely with the indicators set out in *W:AVE*, but some of which are defined slightly differently.

1.179 It should be noted that performance against these indicators is dependent on other factors such as macroeconomic trends and global events. Nevertheless, the following high level economic development tracking indicators provide the overall context for assessing the progress of West Wales and the Valleys. The use of these tracking indicators will ensure that broader trends in the economy, including structural changes, are taken into account in the evaluation of the effectiveness of the Convergence programme in Wales.

Table 8. Programme level tracking indicators⁶⁹

Category	Indicator	Wales	Programme area	Date	
High-level economic	1	GVA (£ per capita) ⁱ	13,316	11,126	2004
	2	Household disposable income (£ per capita) ⁱ	11,278	11,021	2004
	3	Employment rate (within 16 - 64 population) ⁱ	69.1	67.4	2005
	4	Average earnings (£, weekly, full-time, including overtime) ⁱ	470	456	2006
Labour market	5	Economic inactivity rate (within 16 - 64 population)	27.1	28.7	2005
	5a	Economic inactivity rate excluding students (within 16 - 64 population)	24.5	26.4	2005
	6	Unemployment rate (within economically active population) ⁱ	5.2	5.4	2005
	7	Migration flows (net flow into area)	12,400	9,200	Avg mid-02 to mid-05
Value added per job	8a	GVA (£ per worker) ⁱ	30,555	27,621	2004
	8b	GVA (£ per hour worked) ⁱ	18.5	17.1	2004
Investment	9	Business investment as a percentage of GVA ^{i,ii}	13.8	..	Avg 2002 to 2004
Innovation	10	Gross domestic expenditure on research	1.2	..	Avg 2002 to

⁶⁹ Indicators are measurable at NUTS 2 level, except where noted.

		and development as a percentage of GVA ⁱⁱⁱ			2004
	11	Business Enterprise Research & Development (BERD) expenditure (percentage of GVA)	0.6	..	2005
	12	Proportion of sales accounted for by new or improved products ^{iv}	17.5	..	Avg 2002 to 2004
Skills	13	Qualifications of working age population (percentage educated to at least NQF level 3)	45.0	42.7	2005
	13a	Qualifications of 16-18 year olds (percentage educated to at least NQF level 2) ⁱ	66.8	64.4	2005
	13b	Qualifications of 19-21 year olds (percentage educated to at least NQF level 3) ⁱ	51.1	47.0	2005
	14	Proportion of employees in professional, technical, managerial and scientific employment	35.9	33.2	2005
Enterprise	15	Total entrepreneurial activity ⁷⁰ , as measured by the Global Entrepreneurship Monitor	5.5	5.2	2005
	15a	VAT/PAYE enterprise births per 10,000 of 16-64 population	58	56	2005
	15b	VAT/PAYE enterprises per 10,000 of 16-64 population	473	453	1 Jan 2006
Competition	17	Exports as a percentage of GVA	21.3	..	2005
Social cohesion	18	Percentage of adults aged 16-64 in workless households ^v	15.4	16.6	Spring 2006
	19	Percentage of children in workless households ^v	17.5	17.5	Spring 2006
Equal opportunities	20	Female earnings as a percentage of male earnings (hourly, full-time, excluding overtime) ^v	89.2	89.5	2006
Sustainable development	21	Quantity of industrial and commercial, construction and municipal waste produced per annum ⁷¹ (Mt) ^v	13.22

⁷⁰ Total early-stage entrepreneurial activity (TEA) is defined as the percentage of the adult working age population actively participating in the process of starting up a new business, or currently active

	22	Ratio of Carbon emissions to Gross Value Added ^{72, vi}

.. Not Available

i Indicator similar to short listed Lisbon Structural Indicator.

ii Indicator not currently available at NUTS 1 or NUTS 2 level, may become available.

iii Indicator not currently available at NUTS 2 level, may become available.

iv Indicator not available at NUTS 2 level, unlikely to become available.

v Indicator not in W:AVE, alternative proposed.

vi Indicator not in W:AVE, alternative proposed. Data not currently available but expected to be available by end 2009.

Table 9. Programme Level Indicators

Indicator	Baseline	Target
Enterprises assisted ⁷³	102,500 enterprises active, 2003 (WAG, 2004, Size Analysis of Welsh Business)	14,150
Collaborative R&D ⁷⁴	-	514
Gross jobs created ⁷⁵	777,000 workplace employment, 2005 (WAG, 2006, Workplace Employment by Industry in Wales)	33,200FTE
Enterprises created ⁷⁶	3,790 VAT registrations, 2005 (DTI Small Business Service)	5,104
Profit benefit ⁷⁷	-	£302,100,000
Investment induced ⁷⁸	£2,817 million all Wales net capital expenditure, 2004 (ONS, 2006, Annual Business Inquiry)	£473,000,000
Jobs accommodated ⁷⁹	-	1,050
Premises created or refurbished ⁸⁰	-	35,000m ²
New or improved products, processes or services launched ⁸¹	-	5,028

⁷¹ Industrial 4.24 Mt (2003); Commercial 1.03 Mt (2003); Municipal 1.77 Mt (2003); and Construction 6.18 Mt (2004). Amount of construction waste not available for 2004 and data for all other categories not available for 2004.

⁷² Data not currently available due to unavailability of a constant price GVA/GDP series. However, this is expected to be available by end 2009, but only at all-Wales level

⁷³ Number of enterprises assisted (consultancy advice, guidance or information) through a Structural Fund intervention.

⁷⁴ Number of collaborations between an enterprise and a research institution; the collaboration is an ongoing relationship spanning the length of an R&D project.

⁷⁵ Gross number of full-time equivalent (FTE) jobs directly created through a Structural Fund intervention.

⁷⁶ Gross number of enterprises started as a result of Structural Fund assistance or financial support.

⁷⁷ The amount of increased profit enterprises make from savings or productivity benefits, which have resulted from Structural Fund assistance or financial support.

⁷⁸ The amount of direct private sector investment, levered in as a result of a Structural Fund intervention.

⁷⁹ The maximum number of jobs potentially located at any one time within premises created or refurbished through a Structural Fund intervention.

⁸⁰ Number of m² of premises created or refurbished through a Structural Fund intervention.

⁸¹ Number of new or improved products, processes or services developed to commercialization or internally implemented.

Gross kilometres transport ⁸²	passenger on public	66,000,000 journeys, 2005/06 (Department for Transport);	bus passenger journeys, 2004/05 (Office of Rail Regulation)	passenger 400,000,000 passenger km
Waste recovered ⁸³		484,000t all Wales waste recycled or composted, 2005-06 (WAG, 2007, Key Environment Statistics for Wales)		600,000t

Priority level indicators

1.180 At priority level, a range of indicators will be used to monitor both outputs (activity) and results. These indicators have been selected carefully to reflect the breadth of individual priorities, while focusing on key outputs and results. Evidence from the 2000-2006 programmes suggests that selecting fewer, but better, indicators will improve the quality of the monitoring systems. Alongside the European Commission's guidance, efforts have been made to streamline and improve upon current arrangements. Guidance has also been developed on indicator definitions and data collection methods. This work has been taken forward with our partners through the Wales Post-2006: Evaluation and Monitoring Workstream.

1.181 The Managing Authority is committed to reporting against Commission core indicators. Through monitoring indicators, management information and evaluation, the Managing Authority, as defined in Chapter 6, will be able to report against 32 of the 41 of these, as set out in Annex C. The frequency with which these can be reported against will be subject, in some cases, to the undertaking of ongoing evaluation during the Programme. The Managing Authority will also report against additional indicators selected in partnership; these are detailed under each priority.

Programme level evaluation

1.182 Article 47 of the General Regulation requires programme-level evaluations that will help to improve the quality, effectiveness and consistency of the assistance from the funds. These evaluations will assist with the implementation of the programme, taking account of sustainable development and relevant environmental legislation. The Welsh Assembly Government will ensure that the necessary resources are provided to carry out these evaluations.

1.183 Evaluation will be undertaken on a more flexible basis in the 2007-2013 Programme in accordance with the Commission's emphasis on on-going

⁸² Gross number of kilometres travelled by passengers using public transport services or infrastructure created or improved through a Structural Fund intervention.

⁸³ The gross amount of waste made available for re-use through a Structural Fund intervention.

evaluation. In practice, this means that evaluation will be more demand driven, responding to policy and programme needs as opposed to regulatory imperatives.

1.184 However, it is still a Commission requirement that the Ex Ante Evaluation and Ex Post Evaluation be undertaken and more details on these evaluations can be found at the end of this strategy and in Chapter 6, Implementation.

STRATEGIC IMPLEMENTATION

1.185 A strategic approach to implementation will help ensure that the new Programme makes an even stronger contribution to sustainable economic development. Evaluations of the 2000–2006 programmes have suggested that there are too many projects and that it is difficult to quantify the contribution of some of these to achieving the strategic aims and objectives of the programme. Bringing complementary projects together within the context of strategic frameworks will drive the delivery of key parts of the programme.

1.186 The Welsh Assembly Government has agreed a set of principles to guide the development and implementation of future Structural Fund Programme. These include ensuring that programme are aligned with relevant Government policies and strategies that contribute to the Lisbon and Gothenburg agendas and that they are delivered through projects for which there is a demonstrated strategic need, based on hard evidence. The Government has also agreed that there should be fewer projects, but with 'deeper' interventions. There will be more emphasis on regional collaboration in the development of strategies and projects, taking account of the *Wales Spatial Plan*, as well as simplifying funding streams.

1.187 The *Wales Spatial Plan* will set the framework for choices both on policy priorities and for delivery. It provides key partnership arrangements and the basis for building links between urban and rural areas to support a sustainable future for communities and businesses. The *Wales Spatial Plan* will help ensure that resources are targeted on areas of need and opportunity. The *Spatial Plan* Area Groups will advise on the priorities for investment under three parts of the programme: under Priority 3 Developing the Strategic Infrastructure for a modern economy, the strategic infrastructure elements, under Priority 4, Creating an Attractive Business Environment, the environment for growth elements, and under Priority 5, Building Sustainable Communities, the physical regeneration aspects. The Spatial Plan Area Groups will also play a role in helping to ensure that other programme priorities are implemented in ways which take account of and respond to the needs of their areas. In taking forward this work, the area groups will need to work with relevant stakeholder groups.

1.188 In order to maximise the impact of the future Structural Fund programme and to ensure that strategic targets are met, the aim will be to give more detailed operational direction to key aspects of the programme through a number of '*strategic frameworks*'. It is anticipated that a significant

part of the new programme will be delivered through such frameworks and they will provide an overall context within which projects can be developed and implemented to support a specific part of the new programme. Further information on this more strategic approach to delivery and the principles which will guide the development of the new frameworks is provided in Chapter 6 on the implementation arrangements.

WELSH LANGUAGE

1.189 The Welsh Assembly Government wants Wales to be a truly bilingual nation where people can choose to live their lives through the mediums of Welsh or English or both and where the presence of the two languages is a visible and audible source of pride and strength to all. To fulfil that vision, the Welsh Assembly Government has made a commitment – in *laith Pawb*⁸⁴, the National Action Plan for a Bilingual Wales and its Welsh Language Scheme – to mainstream the Welsh Language across policy areas. The implementation of the Convergence programme will reflect fully this commitment.

MAINSTREAMING OF COMMUNITY INITIATIVES

1.190 Wales participates in three Community Initiatives under the European Structural Funds programme 2000–2006: EQUAL, URBAN II and INTERREG. Wales has been very successful in securing funding under the Great Britain EQUAL programme 2000–2006. Four Development Partnerships operated during the first round, receiving ESF funding of £1.6 million. This increased to 15 Development Partnerships during the second round, with ESF funding of £15 million. Projects such as ‘Healthy Minds at Work’ have helped to increase understanding of the links between economic inactivity and mental health in the workplace. In addition to learning valuable policy lessons, the EQUAL approach to implementation through development partnerships has proved very successful in building understanding and partnership into all aspects of the projects, and facilitating mainstreaming of policy and operational lessons. The experience of EQUAL will be used in the ESF Convergence programme in particular, for developing arrangements to support both innovative actions and trans-national co-operation.

1.191 The proposed Priority 5 focuses specifically on building sustainable communities. In line with the Bristol Accord, the actions proposed will develop both the physical environment and the social aspects of regeneration. The 2000–2006 Objectives One and Two Programmes had a strong record of rural diversification and urban improvement, as well as the very successful URBAN II programme running in Wrexham and, previously, Swansea. The lessons of these programme show that it is critical to gain community involvement in regeneration and a single priority is proposed to ensure that this integrated approach will be delivered.

⁸⁴ Welsh Assembly Government's *laith Pawb*:
http://new.wales.gov.uk/topics/welsh_language/iaith_pawb/?lang=en

1.192 The URBAN II programme in West Wrexham targeted a number of neighbouring communities with similar socio-economic conditions, encouraging collaboration across administrative boundaries to address common problems. Key lessons that have been learned from the URBAN II West Wrexham programme include: defining outputs and results clearly and applying them consistently; being aware of the time and cost requirements of community involvement; and avoiding the inflexibility of working within measures. The Strategic Framework implementation arrangements will allow future interventions to be part of integrated urban development concepts, comprising an analysis of the socio-economic situation, strategic objectives, concrete actions, allocation of finances and structures for implementation.

1.193 The West Wrexham programme demonstrated the potential for the programme to take a holistic approach to regeneration, which can include a range of interventions including promoting SMEs, training, social inclusion and physical regeneration. Such an approach will be built on, in particular, through ERDF Priority 5 of the Convergence programme.

STRATEGY FOR INNOVATION AND TRANS-NATIONAL ACTIVITY

1.194 The Managing Authority will promote and support both innovative action and trans-national activity through a range of Priorities within the Operational Programme, aiming to mainstream the outcomes. Because of this mainstreaming purpose, there will not be a separate and distinct programme or priority axis within the Operational Programme for either innovation or trans-national activity. The scope for both innovation and trans-national activity will be identified as part of the development of Strategic Frameworks. This will ensure the full involvement of Framework partnerships and the Programme Monitoring Committee in selecting the areas in which both innovative action and trans-national activity should be actively promoted and encouraged.

Innovative Actions

1.195 The revised Lisbon agenda places a strong emphasis on activating knowledge and promoting innovation. This is reflected in the Community Strategic Guidelines which encourage the development of strategies with specific provision for experimentation to stimulate regional and local actors to innovate, as well as the new regulatory requirements for the mainstreaming of innovative actions. Innovation in this context is broader than traditional 'technological innovation'. It is defined as the generation of new knowledge and its transformation into new products, processes or services that respond to a demand from citizens. It includes social innovations that support the modernisation of the economy, as well as the reform of employment and social inclusion policies and actions.

1.196 The ERDF Convergence Programme will encourage innovation through agreed Strategic Frameworks and will actively support the

dissemination of outcomes and the sharing of best practice. Rigorous evaluation will be a core feature of all projects promoting innovation and the results of this experimental work will be used to inform both policy and delivery, with the lessons learned feeding into mainstream programme implementation and project development. A strategy to promote this mainstreaming will be developed in consultation with the Programme Monitoring Committee (PMC) as part of the arrangements for implementing all ERDF and ESF programmes. The scope for innovative action will be identified in consultation with partners as part of the work on Strategic Frameworks and will subsequently be agreed with the Managing Authority (see Chapter 6 – Implementation). This will also cover the potential for mainstreaming action. Innovative action projects will be subject to specific monitoring and evaluation and will operate under standard eligibility rules. All innovative action projects will be subject to external evaluation.

Trans-National and Inter-Regional Co-Operation

1.197 The new regulatory framework also provides for the mainstreaming of trans-national and inter-regional co-operation. This provides an exciting opportunity to add value to the implementation of the ERDF Convergence programme by facilitating collaboration in areas of mutual interest with other European regions. While projects involving partners from across the European Union will be considered, particular emphasis will be given to activities with Member States and regions with which the Welsh Assembly Government has formal co-operation agreements. These include Latvia, Brittany, Catalonia, Upper Silesia and Baden-Württemberg. The Managing Authority will establish a separate Trans-national Co-operation Unit to support and co-ordinate action under the programme. Arrangements will be put in place through that unit to ensure that trans-national activities supported through the ERDF Convergence programme do not overlap with those supported through other Community programmes.

1.198 The emerging Regions for Economic Change initiative was introduced by the European Commission in November 2006. The EU-wide Inter-regional Co-operation Programme for 2007-2013, supported under the Territorial Co-operation Objective, will provide an important instrument for implementing this initiative. Regions for Economic Change offers significant opportunities for West Wales and the Valleys in the area of mainstreaming trans-national and innovative actions and is aimed at exchanging best practice between Europe's regions. It provides opportunities for organisations in Wales to engage with regions in other areas of Europe around themes connecting European Union policies to the Lisbon agenda. It introduces a new vehicle for regions to share and test best practice for economic modernisation and increased competitiveness and to disseminate results into the mainstream Programme.

1.199 In the framework of the Regions for Economic Change initiative the Managing Authority commits itself to:

- make the necessary arrangement to welcome into the mainstream programming process innovative operations related to the results of the networks in which the region is involved;
- allow in the Programme Monitoring Committee (or programming committee) the presence of a representative (as an observer) of the network(s) where the Region is involved, to report on the progress of the network's activities;
- foresee a point in the agenda of the Programme Monitoring Committee (or programming committee) at least once a year to take note of the network's activities and to discuss relevant suggestions for the mainstream programme concerned;
- inform in the Annual Report on the implementation of the regional actions included in the Regions for Economic Change initiative.

CONSULTATION

1.200 The Wales chapter of the NSRF and the Convergence programme have been developed through an extensive process of engagement with partners. This has included an External Stakeholders Group, which brings together representatives of the main partner organisations, and five expert workstreams. These workstreams have supported the development of the new Operational Programme and have advised on future programme management, evaluation and monitoring and audit and compliance arrangements.

1.201 The Convergence programme consultation was launched on 28 July 2006 for a period of 10 weeks, closing on 06 October 2006. Independent analysis of the consultation responses has been undertaken by CRG Research Ltd and the full report is available on the Welsh European Funding Office, (WEFO) web site⁸⁵ along with the formal consultation responses. Feedback was also received from the four WEFO consultation events and other stakeholder events organised by the local government, business, community and voluntary sectors, which were attended by WEFO officials. Since July, WEFO has consulted with over 1,000 stakeholders. A total of 129 formal responses were received from the public consultation. Where possible, the report discusses the responses by sector (Voluntary & Community Sector; Economic development / training partnerships; private sector; HE & FE organisations; Trade / Professional Associations; Local Authorities; Other Government Agencies; National Assembly for Wales; Environment, Culture & Heritage; Other). The initial findings of the analysis report have also been discussed with the Post 2006 External Stakeholder Group.

Table 10. Summary of responses to Convergence consultation by sector

⁸⁵ www.wefo.wales.gov.uk

Sector	Number of responses
Voluntary & Community Sector	17
Economic Development / Training Partnerships	35
Private Sector	10
HE / FE organisations	14
Trade / Professional Associations	8
Local Authorities	19
Government Agencies	8
National Assembly for Wales	6
Environment, Culture & Heritage	9
Other	1

1.202 The main points that emerged were:

- broad support for the strategy, priorities and themes;
- general agreement on key principles i.e. simplification, transparency, inclusive decision making and building on lessons from 2000-2006 programme;
- mixed views on how to apportion resources between priorities;
- mixed views on the level of focus on the Lisbon agenda, strong support from some and concern about a reduced focus on some areas of activity from others;
- recognition of the importance of good monitoring and evaluation and clear processes for collecting management information;
- support (particularly from HEIs) for the role of higher education in economic development;
- a continuing need for engagement with partners at all levels;
- more information requested on the role of the Wales Spatial Plan and its interaction with the proposed Strategic Frameworks;
- a perceived lack of emphasis on the tourism sector.

1.203 Details of the full range of comments together with a list of those who participated in the consultation are given at Annex L.

SUMMARY OF EX-ANTE EVALUATION AND STRATEGIC ENVIRONMENTAL ASSESSMENT, (SEA)

Summary of ERDF Convergence Ex Ante Evaluation

1.204 In accordance with Article 48, an Ex Ante Evaluations has been undertaken for the ERDF Convergence Programme to ensure that resources are allocated optimally and to maximise the quality of plans for programme implementation. In April 2006, following a competitive tender process, DTZ Consulting and Research were contracted by WEFO to undertake these Ex Ante Evaluations. The process worked in an iterative way with DTZ commenting on early drafts of Programme documents and providing comments and recommendations for consideration by WEFO. Further comments were provided on later drafts and a list was kept of which recommendations were and which were not taken into account. Where WEFO did not take account of comments, an explanation is required. This is all detailed in the full report. The vast majority of recommendations and suggestions made by DTZ have been accepted by WEFO and have been incorporated in the draft of the Operational Programme (OP). This makes this full report to some extent historic, showing how the draft of the OP was influenced by the ex ante evaluation, rather than charting remaining recommendations.

1.205 The ERDF Convergence Ex Ante Evaluation concluded that the socio-economic analysis is relevant, up-to-date, comprehensive, well-written and constructed. Data sources used were considered credible and the evaluators were satisfied that sufficient and appropriate comparators had been used. There is a clear correlation between the content of the analysis and the Lisbon agenda and the conclusions drawn are, on the whole, linked to the evidence. The Ex Ante Evaluation had highlighted that there was a need to improve the consistency of benchmarking against EU data and also suggested areas where the analysis could be strengthened, the majority of which have been taken on board. This issue was considered to be addressed in the final version of the analysis. The Ex Ante Evaluation had also recommended that the analysis make use of forecast data although WEFO considered that forecast data was too unreliable to be included.

1.206 The Ex Ante Evaluation concluded that, for the most part, the Programme is consistent with the policies and strategies at a European level and fits well with the Community Strategic Guidelines and the Lisbon priorities. However, the evaluators made some recommendations to further strengthen consistency with European strategies and other Wales policies and in the main these have been implemented. The Ex Ante Evaluation found a high degree of fit between the ERDF and ESF Convergence Programme.

1.207 The evaluation concluded that, in general, the Programme is well developed with a strong link between the key challenges facing West Wales and the Valleys, the strategic vision, and the key elements of the Programme in terms of Priorities and Themes.

1.208 The evaluators also found that the Programme has a high degree of internal consistency, with few conflicts between the Priorities. There is an appropriate balance between the interventions that carry a high degree of policy risk but promise high impacts, and those that have been tried and

tested in previous programme. The evaluators made some recommendations in the main relating to highlighting more explicitly the particular market failure that was being addressed and thus making the case for Structural Funds intervention clearer, and areas where there is potential overlap between priorities. The re-structuring of the priorities reduces the risk of overall overlap as priorities more clearly focus on single objectives. These were very largely accepted by WEFO and consequently implemented.

1.209 In terms of implementation arrangements the key recommendation is that a Monitoring and Evaluation Strategy (or Evaluation plan) should be developed to detail planned monitoring and evaluation activity. As a result of the DTZ recommendation WEFO set about drawing up the Monitoring and Evaluation Plan, which subsequently addressed almost all of the more specific recommendations.

1.210 As part of the ex ante evaluation, the evaluators assessed the extent to which the Programme maximises Community added value. Added value was considered in terms of economic and social cohesion, policy added value in relation to Community priorities, financial added value and added value of the Structural Funds method. The evaluators assessed the Programme at different stages of its development and made recommendations to WEFO in order to improve the Programme, drawing on lessons learned from previous programmes. The evaluators concluded that the Programme as submitted to the Commission is designed to maximise Community added value, specifically by supporting Community economic and social cohesion objectives, by being strongly complementary to Community priorities, especially Lisbon, and by adding value through the method of implementation.

1.211 In summary, the Ex Ante Evaluation has been characterised by a high degree of positive and productive interaction between the evaluators and WEFO. Consequently, the vast majority of recommendations and suggestions made by DTZ have been accepted by WEFO and have been incorporated in the draft of the OP. The report highlights the degree to which WEFO has attempted to incorporate the recommendations of the ex ante evaluators, which is described as “noteworthy” and, consequently, few substantive comments remain.

Summary of SEA

1.212 As required under Directive 2001/42/EC, a Strategic Environmental Assessment (SEA) has been undertaken alongside the development of the ERDF Convergence Programme and Ex Ante Evaluation. The purpose of the SEA is to ensure that the Programme meets the high level of environmental protection expected of EU Structural Fund programme. Royal Haskoning were sub-contracted by DTZ Research and Consulting (the contractors for the Ex Ante Evaluations) to undertake the SEA during 2006. The SEA has four parts to it: a screening; a scoping; production of and consultation on the draft Environmental Report; and, finally, integration of the concerns, issues and impacts raised in the public consultation.

1.213 The SEA identified a number of negative cumulative impacts that could potentially occur as a result of the Programme. These included effects on biodiversity, air and water quality, and climate change. However, the SEA also proposed a number of mitigation and avoidance measures recommended for inclusion in activities to be funded by the Programme, and also as requirements of relevant activities. These included supporting activities that promote clean technology and activities that focus on improvements in fuel efficiency. The SEA also proposed a number of measures to be incorporated into funded activities. These included Environmental Management Systems, promotion of sustainable transport, achievement of high standards of environmental performance for all buildings, and promotion of biodiversity and sustainable land use management for developed sites.

1.214 In response to these proposals, WEFO proposed additional indicative activities in the Programme that covered areas identified in the above mitigation measures. The information provided by the SEA also provided additional focus on maximising the environmental benefits expected to result from the Programme.

1.215 The SEA also proposed a number of measures for monitoring the significant environmental effects of the Programme (see Chapter 8 of the Environmental Report at Annex H). WEFO has taken these proposals into account in finalising arrangements for Programme monitoring and project selection.

Summary of how environmental considerations have been integrated into the Programme

1.216 The Programme is designed to ensure the strong complementary relationship envisaged under the Lisbon and Gothenburg strategies between the economic, social and environmental issues. It also reflects the focus of the Community Strategic Guidelines in preserving the environmental potential of the region.

1.217 During the 2000 – 2006 programming period, independent research found that environmental sustainability had been integrated well into the Objective 1 Programme. A similar approach is being adopted for the 2007 – 2013 programming period: horizontal and vertical activities addressing environmental sustainability objectives, with indicators used to encourage projects to address those objectives and to measure progress.

1.218 In terms of vertical actions, the Programme will add value by supporting actions that increase resource efficiency by improving the environmental performance of business and promoting innovation in clean and energy efficient technology. Direct investment in environmental infrastructure will be made with the aim of meeting renewable energy targets and improving the region's performance in waste management. Remediation and reuse of contaminated and derelict land for economic and social use will have significant benefits in degraded areas.

1.219 There is also increasing evidence of the potential benefits of the environment as an economic driver, on which West Wales and the Valleys has the potential to build. The considerable potential of the environmental goods and services sector, environmentally friendly products and processes, and also the sustainable management of the natural environment that will help rural regeneration will be supported under the Programme. There will also be an emphasis on improved management of environmental risks and resources.

1.220 As well as vertical provisions for environmental sustainability, environmental sustainability is a key horizontal theme. At a project level, all projects will be expected to address relevant environmental issues at the design stage, and environmental sustainability will be a key theme of all project-level and Programme-level evaluations.

1.221 Research has indicated that project-level guidance on environmental sustainability has been successful in the current programming period; this guidance is being revised and extended for the next programming period, and 'good practice' examples of integration included. Specialist advice will be made available to projects either from WEFO or through the partnerships involved with developing and implementing projects. Specialist input will be provided at an early stage in the process to maximise take up of opportunities to promote environmental sustainability. The involvement of key environmental organisations in the region including the Environment Agency and the Countryside Council for Wales will be important in establishing an effective network of specialist support.

1.222 Environmental sustainability will be a key theme of all project-level and Programme-level evaluations. A full Strategic Environmental Assessment of the Programme has been carried out, to ensure that the Programme meets high standards of environmental protection and that the Programme takes advantage of positive environmental opportunities.

1.223 More detail on the implementation of environmental sustainability is given in Chapter 5 of the Operational Programme, Cross Cutting Themes.

Response to Environmental Report recommendations

1.224 The SEA has had the very positive effect of maintaining a strong focus on environmental issues within the Programme drafting process. It has raised a number of useful issues which have been taken into account, and provided valuable suggestions on monitoring, project selection, and mitigation measures.

1.225 The Environmental report provided an in depth review of the environmental situation in the region which supported the issues identified in the operational programme. Comparison of the SEA objectives and the Environmental Sustainability objectives used in the Operational programme demonstrated good compatibility apart from an objective that related to the historic environment. This will be addressed by strengthening the coverage of this issue within the environmental sustainability guidance that is being

prepared. The report also provided an analysis of actions that could be taken to mitigate potential environmental impacts which is providing a useful reference for the preparation of the guidance. A number of project selection criteria are suggested in the Environmental Report, and these will be integrated as appropriate into the finalised project selection process. The Report recommends that a projects should make use of a climate change adaptation tool to inform the project design, and accordingly an appropriate tool will be identified and used by projects (although not the exact tool recommended in the Report).

1.226 A variety of indicators and targets have been proposed by the SEA which, together with those already proposed in the operational programme will form the basis for monitoring environmental effects (see below).

Response to consultations on the Environmental Report

1.227 The relevant statutory bodies (Environment Agency Wales, Countryside Council for Wales, and Cadw) were actively involved in the scoping of the SEA during the five-week scoping period. A scoping report was produced to facilitate discussions, meetings held with the statutory bodies, and comments returned by the statutory bodies. Based on these reports, the full Environmental Report was produced to underpin a public consultation on the SEA.

1.228 At the start of the public consultation period, a wide range of interested organisations were notified of the consultation. In addition, the report was made available on the Welsh Assembly Government [website](#)⁸⁶. This public consultation commenced shortly after the consultation on the draft ERDF Convergence Programme began. Public consultation on the draft Environmental Report ran for eight weeks. In total, responses were received from twelve organisations.

1.229 A number of issues were raised by Consultees. The key areas are summarised in Table 11, with an indication of the action taken as a result. Except where identified, these issues and actions relate to the Environmental Report. More detail is given in the Environmental Report.

Table 11. Summary of responses received to consultation on the Environmental Report and actions undertaken

⁸⁶ <http://new.wales.gov.uk/consultations/?lang=en>

Comment summary	Response
NTS too long.	NTS revised and condensed.
Wording of Theme 4 needs revision for clarity.	WEFO Policy Branch to take forward.
Assessment does not state whether impacts are positive, negative, direct, indirect, secondary, cumulative, short- medium- or long-term, or permanent.	Assessment revised to separate out the different types of impacts and to provide specific indications of impact where possible.
Additional policies, plans and programme (PPPs) should be reviewed.	A large number of additional PPPs were reviewed for the revised ER, almost all those suggested by consultees except for a small number where copies of the documents could not be obtained.
The indicators were not specific to the Programme or were not comprehensive.	Indicators were reviewed and revised to present ensure comprehensive coverage and close relevance to the environmental objectives.
A number of alterations were suggested to objectives and sub-objectives (for example those relating to urban landscape character, cultural heritage, salmonid and other fish, water environment, WFD, consumption of resources, soils, countryside and landscapes, material assets, and Welsh language).	Alterations to the objectives and sub-objectives were undertaken.
Baseline environment information on a number of issues (including biodiversity, natural resources, water environment, climate change and adaptation, material assets, and quality of life) should be expanded further.	Baseline environment expanded in the areas identified where the level of detail was considered appropriate to this SEA and where data was available.
Some alterations suggested on the environmental issues covered (including heritage, marine environment, water resources, landscape and seascapes, soils, biodiversity, physical and mental well-being).	Amendments made as appropriate.
Impacts of the Programme should be considered further (on issues including heritage, historic landscapes, and biodiversity).	Reviewed and revised.
Mitigation measures identified are not sufficiently detailed or targeted.	The mitigation measures were reviewed, revised and extended following re-assessment of the Programme and the alternative options.
Alternative options assessed not considered to test the Programme.	Revised alternative options based on levels of funding within the Programme's Priorities were identified and assessed.

Comment summary	Response
Indicators not considered sufficiently targeted or focused.	Monitoring indicators were reviewed and revised to present those appropriate to indicate change. However, this was constrained by the fact that there are relevant effects of greater significance and influence than the Programme.

Reasons for choosing Programme over the alternatives identified

1.230 Three options were considered in the SEA alternative options: the Proposed Programme, Option A, and Option B. Option A and Option B were produced by varying the funding to the part of the Programme particularly relevant to environmental improvement activities. In Option A this part of the Programme received 20% more funding, with a corresponding 20% reduction across the rest of the Programme proportionate to the value of each Theme under the Proposed Option. In Option B, Priority 2 Themes 3 to 5⁸⁷ had the funding value reduced by 20%, and the rest of the Programme was increased in value by 20%.

1.231 The SEA predicted that Option A would perform slightly better overall against the draft Proposed Programme in terms of beneficial environmental impacts and avoidance of adverse environmental impacts; and that the Proposed Programme would perform better than option B. However, taking the economic and social needs of Wales into account alongside the predicted environmental effects of the Programme, it has been decided that the Proposed Programme option is the best compromise among the options considered.

1.232 The experience of integrating Environmental Sustainability into the current structural fund programme has benefited the preparation of the convergence operational programme. From the outset there has been a major emphasis on promoting activities that will benefit the environment. This has been further strengthened by responding to issues raised by the SEA and consultation process. It is considered that the programme is now appropriately balanced in terms of the integration of the environment into the social and economic objectives in line with the principle of sustainable development.

⁸⁷ The SEA was undertaken on the Consultation document. The structure of the document has altered during negotiations. Priority 2 referred to in the SEA (Creating an attractive business environment) has now been split into Priority 3 (Developing strategic infrastructure for a modern economy) and Priority 4 (Creating an attractive business environment). Themes 3 to 5 referred to in SEA are those that have moved to P4: Theme 3 (Energy) is now P4T1 (Energy); Theme 4 (Tackling environmental risks to economic growth) is now P4T2 (Tackling Environmental Opportunities and risks for growth); and Theme 5 (Environment for Growth) is now P4T3 (Environment for growth).

CHAPTER 4 PRIORITY AXES

ERDF PRIORITY 1: BUILDING THE KNOWLEDGE BASED ECONOMY

OBJECTIVE

1.233 To promote a high value-added economy by improving knowledge and innovation for growth, fostering Research and Development, innovation and technology and its commercial exploitation and increasing access to and take up of ICT.

RATIONALE

1.234 Lower value-added per job explains the majority of the current gap in GVA per head between West Wales and the Valleys and Wales as a whole. Therefore, one of the greatest challenges for the future prosperity of West Wales and the Valleys is not only to establish attractive, stable conditions in which businesses can thrive, but also to promote a long-term economic growth agenda and increase earnings. This needs to be done by driving up competitiveness and raising productivity. One of the critical drivers of productivity and value-added in the economy is the ability to develop, take-up, and improve products and services, both in manufacturing and services. The ability of businesses to develop new and improved products, processes and services and to access new markets is critical. The ability to commercialise and exploit the outcome of research and ideas is one of the key factors contributing to business growth, particularly among SMEs. The region, however, currently has one of the lowest rates of business innovation, research and development (R&D) activity and expenditure in the UK⁸⁸. In part this is explained by the industrial structure of West Wales and the Valleys where sectors such as pharmaceuticals, which invest heavily in R&D, are under-represented. On other measures of innovation, Wales (data is not available at the sub-regional level) does not appear to be too far behind other UK regions and this is an area where there are real opportunities to build a modern economy. It is also important to encourage firms to exploit innovation and technology from around the world if West Wales and the Valleys is to be globally competitive.

1.235 An important starting point will be to build on developments to create a strong innovation culture, where all sections of society – businesses, communities, and educational institutions – are made aware of the benefits of embracing innovation, technology and R&D⁸⁹. Firms need to be supported to more readily exploit and invest in new ideas, products and processes.

⁸⁸ In 2003, only 55% of R&D expenditure was within the business enterprise sector in Wales, which is below the target set in the Lisbon Strategy of 67% and below the 68% average for the UK as a whole. Information from ONS2003:

http://www.statistics.gov.uk/downloads/theme_economy/ET621.pdf

Through its participation in the European Commission's Innovative Actions programme 2000–2006, Wales has already identified future technologies, particularly the future convergence of technologies that are most likely to benefit the economy over the next two decades and beyond. It will be important to ensure businesses are aware of, and adopt, emerging technologies and exploit the opportunities to be gained.

1.236 Where businesses collaborate to generate and implement new ideas the growth is more rapid and technological spill-overs arise⁹⁰. However, many towns in West Wales are widely dispersed and distant from major centres; subsequently, there is a need to stimulate more business-to-business contact in order to facilitate networks, cluster developments, sectoral fora and supply chain interaction. This will be particularly important among businesses that have the potential for sustainable growth, as well as for key technology and knowledge-based, high added-value industries and sectors that the Welsh Assembly Government has identified as being crucial to the future prosperity of the economy⁹¹.

1.237 Access to a strong research and development base for indigenous enterprises is an important element in providing the expertise, facilities and R&D capacity required for effective knowledge and technology transfer to Welsh businesses and other organisations, and for the commercial exploitation of research and the region's HE institutions represent a significant resource. It is also important that businesses have access to R&D and technology from further afield. Initiatives under the Structural Funds programme 2000–2006 have laid excellent foundations by creating a whole new culture of entrepreneurship, and innovation, and by helping businesses to access leading-edge research activity in the region.

1.238 There is complementarity with Framework programme 7 (FP7) for 2007–13 'Building the Europe of Knowledge'⁹². This Convergence programme will help all Wales' research base, companies with in-house research capacity, and those without previous experience of engaging in research engage with FP7's four component parts.

⁸⁹ For example, review Prof. Michael Porter's work on 'clusters and the new economics of competition': <http://www.oregoneconomy.org/Porter%20Clusters%20New%20Economics%20of%20Competition.pdf>

⁹⁰ Rice. P and Venables. A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain, CEP Discussion Paper No. 642; Boddy. M and Hudson. J, 2005, Meeting the Productivity Challenge A report for South West of England Regional Development Agency: http://download.southwestrda.org.uk/file.asp?File=/res/general/meeting_the_productivity_challenge.pdf

Graham. D, 2005, Wider Economic Benefits of Transport Improvements: Link Between Agglomeration and Productivity. Department of Transport.

⁹¹ The Welsh Assembly Government's Wales: A Vibrant Economy identifies ten sectors widely recognised as important for the future economic growth. Further sectors may be identified following more detailed sectoral and structural analysis of change in the Welsh economy. The Welsh Assembly Government's emerging Science Strategy also identifies several important sectors that underpin sustained economic and social renewal. See <http://new.wales.gov.uk/about/strategy/strategypubs/978365/?lang=en>

⁹² *European Commission's Research Framework programme 7 (FP7) for 2007–13 'Building the Europe of Knowledge'*: http://ec.europa.eu/research/future/index_en.cfm

1.239 The Welsh Assembly Government's commitment to support sectors is important to the future economic growth of Wales⁹³. While some of the sectors such as manufacturing, creative industries, hospitality, leisure and tourism have particularly strongly developed clusters in West Wales and the Valleys, all ten sectors have a presence in the Programme area. There is a major opportunity for developing environmental technologies as a base for growth and to address many of the key environmental and sustainability issues for West Wales and the Valleys, Wales as a whole, and the wider world. This can be achieved by creating innovative products and processes for environmental improvement in areas such as waste management, reductions in harmful carbon emissions and methods for engaging businesses in the commercial advantages of adopting 'green' policies. In addition, there are also significant gains to be made from supporting individuals and businesses to utilise and disseminate innovative material and applications over the latest ICT networks⁹⁴.

1.240 In 2010 the Welsh Assembly Government's economic development policy Economic Renewal: a new Direction identified 4 priority areas for R&D: Digital Economy, low carbon economy, health and biosciences and advanced engineering and manufacturing. This focused approach recognised that these are areas where Welsh universities have the best opportunity to maximise their research performance and economic impact.

1.241 The Wales Science Policy identified some particular niche sectors which offer scope for economic exploitation. These include low carbon energy systems and, in the health sector, the physical and cognitive sciences. Successful development of all sectors, but more specifically these more specialist based sectors, will depend upon high quality research linked directly to commercial opportunities.

1.242 The second element of this Priority concerns the spread and use of ICT. In today's technology driven global society, the full exploitation of the benefits of ICT is critical in moving economies and societies forward⁹⁵. There is ample and growing evidence⁹⁶ of the importance of investment in and

⁹³ The Welsh Assembly Government's *Wales: A Vibrant Economy* identifies ten sectors widely recognised as important for the future economic growth. These are: automotive; aerospace; agri-food; high technology; pharmaceuticals / bio-chemicals; financial services; creative industries; construction; hospitality, leisure and tourism; and social care. However, there are a range of other sectors and clusters of importance to the development of a sustainable economy, including energy and environmental-related sectors. The Welsh Assembly Government's forthcoming *Science Strategy* also identifies several important sectors including healthcare, low carbon energy and the physical and social / cognitive sciences that underpin sustained economic and social renewal (see <http://new.wales.gov.uk/about/strategy/strategypubs/978365/?lang=en>).

⁹⁴ Information available at:

http://europa.eu.int/information_society/eeurope/i2010/docs/launch/i2010_press_release_en.doc

⁹⁵ Facing the Challenge: The Lisbon Strategy for Growth and Employment. A report from the High Level Group, November 2004. <http://ec.europa.eu/growthandjobs/pdf/2004-1866-EN-complet.pdf>

⁹⁶ European Commission 2004 Competitiveness Report. Estimates 90% of all future innovation in the automobile sector will be ICT-driven and 18% of EU-15's productivity growth since mid1990's is attributable to ICT investment. http://ec.europa.eu/enterprise/enterprise_policy/competitiveness/doc/compreg_2004_en.pdf

effective use of ICT in a region's successful economic and social development. Rapid adoption of ICT, together with innovation, is a vital path to open and extend markets and thus strengthen business competitiveness and success⁹⁷. Recent estimates suggest that the net benefit of broadband availability on the Welsh economy between 2000 and 2015 is at least £1.4billion (and potentially up to £28.4billion⁹⁸) and a business can expect to achieve greater business benefits the higher it places itself on the e-adoption ladder⁹⁹. Demand-side initiatives that drive businesses and the economy, to take advantage of the potential of ICT must be coupled with supply-side interventions to stimulate this demand which, due to factors such as geography and population density provision creating additional costs and reducing customer base, may continue to require some public (rather than entirely commercial) intervention¹⁰⁰.

1.243 Exploitation of ICT by citizens and communities increasingly drives the demand for improved ICT goods and services.¹⁰¹ In addition, digital switchover in 2009 and 2010 will result in new opportunities for electronic services. ICT literacy in Wales is lower than in the rest of the UK and engagement at a community level can be a key step in tackling the digital divide¹⁰². Those individuals who do not have access to or who are not competent in using new technologies are, and will be, increasingly socially and economically excluded.

1.244 Increasing access to ICT by households can help reduce socio-economic exclusion by providing access to information while also introducing more competitive prices¹⁰³. It will be vital to ensure a more level playing field on which businesses can compete and communities can prosper, in turn helping to meet the Welsh Assembly Government's social inclusion and equal opportunities goals.

POLICY CONTEXT

European

⁹⁷ Rincon, A. et al, 2005. The Productivity Impact of e-Commerce in the UK, 2001: Evidence from microdata. <http://www.niesr.ac.uk/pubs/searchdetail.php?publicationID=548>

⁹⁸ Benefits of Broadband and the Broadband Wales Programme to the Welsh Economy, Atkins Management Consultants, September 2006. http://new.wales.gov.uk/topics/businessandconomy/broadbandandict/policy_and_programme/bbwbenefits/?lang=en

⁹⁹ Business in the Information Age: International Benchmarking Study 2003, DTI

¹⁰⁰ IT use by Firms and Employees: Productivity evidence across industries. Economic Trends No. 625, Office of National Statistics, 2005. <http://www.statistics.gov.uk/cci/article.asp?ID=1233>

¹⁰¹ OECD DSTI/ICCP/IIS(2005)6/FINAL <http://www.oecd.org/dataoecd/49/25/35930544.pdf>

¹⁰² (i) OECD (2001) Understanding the Digital Divide <http://www.oecd.org/dataoecd/38/57/1888451.pdf>

(ii) Husing, T. and Selhofer, H. (2002) 'The Digital Divide Index' ECIS (Poland Conference Proceedings) (iii) Tsiavos, P., Khanna, A. and Smithson, S. (2001) 'E-government Initiatives and Social Exclusion European Conference on e-Government, Dublin 2001

¹⁰³ OECD DSTI/ICCP/IIS(2005)6/FINAL <http://www.oecd.org/dataoecd/49/25/35930544.pdf>

1.245 The orientation of this Priority is on the key objectives set out in the Community Strategic Guidelines of making the region a more competitive place in which to invest and work and thus to contribute effectively to a strong and dynamic European economy. The European thematic policies and programmes relevant to this priority include, for example:

- the EU's Research Framework programme 7 (FP7) for 2007–13 'Building the Europe of Knowledge' and "Regions of Knowledge";
- the European Commission's 'key technologies group' foresight report, September 2005;
- the EU's Competitiveness and Innovation programme 2007–2013¹⁰⁴, supports measures to strengthen competitiveness and innovation capacity, particularly encouraging the use of information technologies, environmental technologies and renewable energy sources;
- the EU's Competitiveness and Innovation programme 2007–2013¹⁰⁵;
- the European Commission's i2010: A European Information Society for growth and employment¹⁰⁶ recognises the role of ICT as a driver of economic growth. It includes an **ICT Policy Support Programme** to promote the adoption and use of [information and communication technologies](#)¹⁰⁷ (ICT), the backbone of the knowledge economy. The uptake of ICTs by both the private and public sectors helps to stimulate European innovation performance and competitiveness;
- Europe 2020 focuses on "Smart growth" i.e. developing an economy based on knowledge and innovation and has a headline target that 3% of the EU's GDP should be invested in R&D. The flagship initiative **A Digital Agenda for Europe** aims to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more of European households subscribing to internet connections above 100 Mbps. The Commission has indicated that it will propose digital literacy and competences as a priority for the European Social Fund regulation 2014-2020 and that at national level, Member States will need to target public funding, including structural funds, on areas not fully served by private investments. **Innovation Union** recognises that Member States will need to reinforce cooperation between universities, research and business.
- Communication from the Commission of September 2006 "Putting knowledge into practice: A broad-based innovation strategy for the EU";

¹⁰⁴ European Commission proposal:

http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

¹⁰⁵ European Commission proposal:

http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

¹⁰⁶ *i2010: A European Information Society for growth and employment*, June 2005:

http://europa.eu.int/information_society/eeurope/i2010/index_en.htm

¹⁰⁷ http://europa.eu/legislation_summaries/information_society/index_en.htm

- Communication from the Commission of August 2007 entitled "Competitive European Regions through Research and Innovation – A contribution to more growth and more and better jobs" which advocates consistency in the use of the various sources of European funding and the effective combination of cohesion policy programmes with the 7th RTD Framework Programme and the Framework Programme on Competitiveness and Innovation in order to ensure synergy.
- Communication from the Commission of October 2006 - An innovation-friendly, modern Europe, to promote innovation and research in Europe based on future strategic technologies, closer collaboration between universities, researchers and business, and the creation of European Technology Platforms and a European Institute for Technology. Closer collaboration between the universities and the business world would enable the EU research investment target to be realised.

1.246 There is a need for complementarity with the EU's latest Research Framework programme 7 (FP7) for 2007–13 'Building the Europe of Knowledge'¹⁰⁸. In this context, this Convergence programme is designed to help all Wales' research base, companies with in-house research capacity, and those without previous experience of undertaking research to engage with FP7's four component parts: Co-operation, Ideas, People and Capacities. With these four key components also linking strongly with Wales' priority sectors¹⁰⁹, there is a great opportunity to build on these to help West Wales and the Valleys move further toward a more innovative, sustainable economy. In particular, FP7's 'research potential' strand within the 'Capacities' component specifically targets the development of Convergence regions. However it is not the intention to access both the structural funds and Framework 7 for the same activity. There are clear distinctions between the type of project that each will fund and this will be managed to avoid any overlap or duplications.

National

1.247 *Wales: A Vibrant Economy's* vision is focused on delivering strong and sustainable economic growth by helping more people into work and helping to raise earnings for those in work. *Wales: A Better Country*, recognises that Wales cannot and should not try to compete on cheaper labour costs; skills and innovation are critical if Wales is to compete on adding value and improve on relative GDP figures in a modern, global economy.

1.248 Promoting a sustainable, innovative and high value economy for Wales also forms a key part of the implementation of the *Wales Spatial Plan*.

1.249 This theme supports the aspirations in *Wales for Innovation*¹¹⁰. The Plan emphasises the importance of communicating the benefits of innovation

¹⁰⁸ *European Commission's Research Framework programme 7 (FP7) for 2007–13 'Building the Europe of Knowledge'*: http://ec.europa.eu/research/future/index_en.cfm

¹⁰⁹ *Wales: A Vibrant Economy*, as above.

¹¹⁰ Welsh Assembly Government's *Wales for Innovation*, March 2003: www.wales.gov.uk/subitradeindustry/content/action-e.pdf

to business, as well as better equipping people to innovate. It also focuses on maximising the capabilities of HE and FE institutions in Wales, in particular through encouraging technology development, transfer and commercialisation, and closer links between academia and businesses.

1.250 The *Wales Science Strategy*, which also has a key bearing on taking forward the objectives of Wales for Innovation. It signposts areas considered as important to Wales' economic development; namely, low carbon energy systems, healthcare and the physical and social / cognitive sciences that underpin sustained economic and social renewal.

1.251 The important and transformational role of ICT in the economy and social fabric of Wales has been recognised by *Cymru Ar-lein – Online for a Better Wales*¹¹¹. This provided a focal point on all aspects of ICT, and has built on many of the principles highlighted in the Lisbon agenda and the e-Europe action plan. Also relevant in this context is 'Connecting the UK: the Digital Strategy', Prime Minister's Strategy Unit, March 2005. Against this backdrop Broadband Wales Programme¹¹² was launched in 2002 to provide a five-year holistic, flexible approach to driving forward broadband in Wales.

1.252 In line with the ICT developments at European level through i2010 the framework of *Cymru Ar-lein* is now being further built upon by its successor *Strategy Towards e-Wales – A Consultation on Exploiting the Power of ICT*¹¹³ and which will direct many of the economic aspirations of this Theme. It is about creating an environment in Wales where business, the voluntary sector, individuals and communities use the powerful channels offered by ICT effectively to earn, learn and interact effectively with the world, in turn helping Wales to thrive and prosper in a modern, global economy.

1.253 In 2010, *Economic Renewal: a New Direction* outlined a new role for the Welsh Assembly Government in supporting the economy, primarily through acting as an enabler and shaper of the conditions for business to flourish. This new approach to supporting Innovation and R&D and ICT infrastructure necessitated a revision of this Priority in order to ensure alignment.

1.254 *Economic Renewal* recognised that Wales faces a number of barriers and challenges preventing it from realising its full R&D and innovation potential. In comparison to many other developed economies, Wales continues to lack a large R&D base in either the public or private sectors, yet R&D plays an important role in stimulating innovation, which is a key driver of productivity, economic growth and long-term improvements in wellbeing.

¹¹¹ Welsh Assembly Government's *Cymru Ar-lein* strategy.

<http://www.broadband.wales.gov.uk>

¹¹² Welsh Assembly Government's Broadband Programme.

<http://www.broadband.wales.gov.uk>

¹¹³ Welsh Assembly Government's *Towards e-Wales: A Consultation on exploiting the power of ICT in Wales*, July 2006.

http://new.wales.gov.uk/topics/businessandconomy/broadbandandict/policy_and_programme/eWalesstrategy/?jsessionid=A766CF13C108506AD3B4DAD761F498B3.www1?lang=en

1.255 A more focused approach to research and development and the commercialisation of knowledge in Wales was introduced focusing on four priority areas where Welsh universities would have the best opportunity to maximise their research performance and economic impact. These are: Digital economy (ICT), Low carbon economy (including climate change mitigation and adaptation), Health and biosciences, and advanced engineering and manufacturing.

1.256 Economic Renewal highlighted the need to develop UK and global recognition of Welsh research. Businesses in Wales are operating in an ever more competitive global marketplace and Wales must exploit its advantages as a small country. Key players in industry, academia and government must work together to develop strong networks between institutions engaged in research activity and commercialisation. The Economy & Transport Ministerial Advisory Group identified R&D and innovation as key to the future performance of the Welsh economy.

1.257 Another key aim of Economic Renewal: a New Direction was to facilitate a modern, sustainable infrastructure to provide the opportunity for, and underpin economic growth and improve access to services for people, businesses and communities. Wales has specific demographic and geographic challenges in relation to infrastructure and investment in next generation broadband infrastructure is necessary to ensure that Wales is at the forefront of the digital economy and to create the right conditions to enable businesses to locate and flourish.

1.258 The Assembly Government would seek to encourage the ICT market to invest in areas where there is a strong commercial case to do so, and target government intervention in areas where there was a genuine requirement in order to accelerate the deployment of next generation broadband infrastructure and expand coverage across Wales. Economic Renewal reflects the importance of digital communications to Wales and the benefits digital technologies hold for the well-being of the people of Wales and economic growth. Investors and indigenous businesses must be able to rely on 21st century ICT infrastructure and communities and citizens need to be well-connected.

TARGETS AND INDICATORS

1.259 The following indicators will be used to track the progress of projects and the Programme. Further details can be found at Annex D.

Table 12. Indicators to track progress of projects and the programme – ERDF Priority 1

Indicator	Baseline	Target
Outputs		
Enterprises assisted (80% SMEs)	102,500 enterprises active, 2003 (WAG, 2004, Size Analysis of Welsh Business)	5,000

Enterprises financially supported	102,500 enterprises active, 2003 (WAG, 2004, Size Analysis of Welsh Business)	400
Individuals assisted	-	500
Individuals financially supported	-	25
Open access infrastructure points	-	300
Initiatives addressing barriers to ICT uptake	-	15
Collaborative R&D	-	500
Innovation centres and R&D facilities developed	-	7,500m ²
Results		
Gross jobs created	777,000 workplace employment, 2005 (WAG, 2006, Workplace Employment by Industry in Wales)	10,000FTE
Enterprises created	-	80
Profit benefit	-	£159,000,000
Enterprises adopting or improving equality strategies and monitoring systems	-	50% of firms assisted and supported
Enterprises adopting and improving Environmental Action Plans	-	20% of firms assisted and supported
Products, processes or services registered	116 all Wales patent applications granted Wales, 2004 (The Patent Office Facts and Figures 2004-05)	250
New or improved products, processes or services launched	-	5,000
Investment induced	£231 million all Wales business R&D spend, 2005 (ONS, 2006, UK Business Enterprise Research and Development)	£150,000,000
Enterprises accommodated	-	50
Jobs accommodated	-	150
Impacts		
Net jobs created	-	-
Increase in turnover	-	-
Sales of products, processes or services	-	-
Net enterprises created	-	-
Population with access to infrastructure points	32% of people in Wales with broadband access (ONS, 2006, Internet Access, Households and Individuals)	-

Occupancy rates	-	-
Increase in company-level GVA	-	-

BENEFICIARIES

1.260 These may include the private sector, public sector bodies, Local Authorities, Voluntary sector bodies, Community organisations, Training Organisations, Institutes of Higher Education, Institutes of Further Education and Non-governmental organisations (NGOS), voluntary and community organisations, social enterprises and social partners.

OPERATIONAL STRATEGY

1.261 This Priority will be achieved through two Themes.

Theme 1: Research and Development, innovation and technology

1.262 This Theme aims to raise value added by building business capacity to develop and take-up improved and new products, processes and services. This will be done by developing the domestic research, technology and innovation capacity and the ability to commercialise and exploit research. Participation of both SMEs and larger companies in the programme is welcomed, as benefits to SMEs come both directly and through supply chain and other networks. This aim will be achieved by:

- embedding a culture of innovation and improvement in firms and demonstrating the benefits of innovation and science;
- helping businesses to invest in R&D and develop new market led processes, products, technologies and services, particularly those with high growth potential;
- developing management capacity to better equip firms to develop product and process improvements;
- strengthening and maximising the capabilities of HE and, where appropriate, FE institutions to support businesses through knowledge transfer and commercialisation of research, and encouraging the development of innovative technologies; and
- tackling the barriers to investment in R&D.

Indicative activities

- comprehensive support services, including targeted provision of financial support, to support firms to invest in R&D, to utilise the outcomes of R&D, and to develop new and improved products, processes and services;
- management training to enable managers to understand how to take-up innovations in product and process improvement;
- support to encourage collaborative research initiatives between HE institutions and firms, including financial support for collaborative projects and helping businesses to find the right partners;
- boosting the region's research capacity by assisting institutions to maximise funding opportunities available under Framework 7 where the region has a strategic interest;
- providing businesses with access to up-to-date, high quality equipment and intellectual property and licensing support;
- environmental technologies including the development of products and processes for environmental improvement such as improved waste management and energy efficiency in support of Welsh Assembly Government Environment and Science policies; and
- where there is a clear case for it, strengthening the research capability, capacity and quality of HE (and FE) institutions, and the development of higher/graduate and research level skills linked directly to ERDF projects.

1.263 We expect that this theme will absorb around 72% of the resources for this priority.

Theme 2: ICT Infrastructure and Information Society for All

1.264 This Theme focuses on investment in sustainable ICT infrastructure and raising value added by increasing the demand for, utilisation of, and embedded adoption of Information and Communications Technologies (ICTs). This will be achieved by:

- encouraging firms to take-up ICTs;
- encouraging firms to embed and fully utilise ICTs;
- addressing social and other barriers to ICT uptake and exploitation by firms, citizens, and communities; and
- promoting common platforms to encourage fair and open access to technologies.

Indicative activities:

1.265 The emphasis in these activities will be on the use of ICT to transform business processes, products and services and investment in sustainable ICT infrastructure. Activities will include:

- appropriate support to SMEs to take-up and maximise the opportunities created by e-business to improve business processes, products and services;
- targeted support to stimulate the growth of high growth ICT industries, particularly those focused on the creation of more innovative content, services and applications;
- creating virtual business networks (sector, strategic and/or geographical) to enable businesses to collaborate;
- promoting equality of opportunity for all SMEs through effective use of ICT;
- increasing the effective use of ICT by communities, social enterprises, citizens and the voluntary sector to overcome the 'digital divide';
- supporting ICT applications that have an environmental benefit such as improving resource efficiency and reducing the need to travel;
- promoting and supporting the role of computer security for example in relation to e-crime in an e-business environment;
- encouraging HE and FE and other institutions to develop common IT research platforms to facilitate the pooling of research efforts and findings; and
- supporting investment in ICT infrastructure, focussed on the development of Next Generation Broadband Infrastructure, where there is clear evidence of market failure.

1.266 We expect that this theme will absorb around 28% of the resources for this priority.

1.267 The success of the interventions under this theme requires a change in the behaviour of SMEs and research institutions of the region who must embrace the opportunities the programme offers. Being largely demand led, it is not possible to compel businesses or other bodies to access support. However, the various strategies and policies of the Welsh Assembly Government together with the Strategic Framework (see Chapter 6, Implementation Arrangements) provide cohesion in the delivery of and ease of access to that support. These mechanisms, together with the arrangements for monitoring progress, will track take-up and provide information to inform any necessary changes to the delivery arrangements to ensure maximum take-up.

ADDED VALUE

1.268 R&D and innovation activity has often been relegated to second place in terms of SMEs' priorities where more immediate issues tend to drive day to day business. The effort and resource required to be more outward looking and build relationships with local research institutions can seem daunting and perceived as potentially risky. For their part the ability and capacity of those institutions to engage in their local business communities can be constrained by lack of funds. A further very real barrier to such engagement can be the absence of the appropriate medium of communication, and more specifically high grade ICT.

1.269 By giving investment in R&D and innovation in particular headline status in the Programme and backing this up with the allocation of the very significant level of resources earmarked for this Priority provides the impetus to address these shortcomings in the economy of the region. There is a particularly high degree of complementarity within this Priority between the European and declared policy objectives of the Welsh Assembly Government for instance the read across from Research Framework 7 to the Science Policy for Wales. The funds under this Priority will, therefore, increase in absolute terms the amount of R&D and innovation activity but also add further value by stimulating new and allied investment. In particular, the types of activities envisaged for support under this Priority have the potential to encourage spin-outs and bring real added value to the region through the multiplier effect.

FLEXIBILITY FACILITY

1.270 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In order to promote coherent implementation of actions under this Priority, a maximum of 10% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

1.271 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training to promote the take-up and utilisation of innovations in products and processes linking or complementary to the successful implementation of ERDF funded activities, for example in relation to the exploitation of R&D by SMEs;
- training of research personnel in businesses and HE/FE institutions involved in ERDF funded technology transfer actions;

- training linked to the successful exploitation of ICTs by SMEs and community organisations.

1.272 Relevant ESF indicators will be used, for example:

Table 13. ESF Indicators for Priority 1

Output	⇒ Result	⇒ Impact
Participants	Participants qualifications	gaining
	Participants further learning	entering

TRANSNATIONAL AND INTER-REGIONAL CO-OPERATION

1.273 One of the main outcomes of the interventions proposed under this Priority is to encourage businesses in the region to make far greater use of R&D in order to move up the value chain and support sustainable economic growth. However, given the current size of the existing R&D resource, the ability for businesses and the opportunity for researchers to tap into other regions' research and innovation expertise will be critical in helping to develop capacity and expertise. The opportunity to engage in collaborative projects under the Trans-national and Inter-regional programmes is one which will be particularly valuable in achieving the objectives of this Priority and will therefore be encouraged with the use of ERDF as appropriate.

GLOBAL GRANTS

1.274 We do not envisage the use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

ERDF PRIORITY 2: IMPROVING BUSINESS COMPETITIVENESS

OBJECTIVE

1.275 To strengthen the economy by increasing the size of the business stock and of individual enterprises by tackling market failures in relation to business advice, information and finance.

RATIONALE

1.276 Business start-up and business growth will be encouraged through targeted business support and adequate access to business finance. Following programme modification in 2010 this Priority will no longer fund general business support grants but will instead focus upon re-payable grants where there is clear market failure. The Priority will continue to support debt finance and venture capital to address market failure.

1.277 While lower value-added per job is a major contributor to the current GVA gap in Wales, (which is the focus of ERDF Priority 1), another key factor which affects total economic output in West Wales and the Valleys is the comparatively low level of entrepreneurship.¹¹⁴ The region has consistently been viewed as having a less entrepreneurial economy than that of Wales as a whole and the UK with, for example, lower VAT registrations and the combination of a lower than average business density in the region, with a large number of SMEs highly dispersed or based in remote or rural areas limiting the opportunities for networking, sharing best practice, and exposure to stronger competitive pressures.

1.278 The Lisbon agenda highlights the crucial role of SMEs as contributors to long-term economic growth. SMEs are considered as the 'backbone' of the European economy, playing a vital role based on their dynamism and flexibility, their contribution to employment and social and regional development, and ultimately, in raising regional prosperity. Encouraging innovation, a strong entrepreneurial culture can be an important factor in the creation of new business and the expansion of existing ones. As the average person will now change jobs six times in their career, it is vital that the Welsh workforce is entrepreneurially aware and active so they can adapt to new challenges and be motivated to succeed. To achieve this, new and viable companies need to be created so they can make a real difference to the Welsh economy and ensure long term sustainability.

1.279 Increased focus on high-potential start-ups that are of a high quality in terms of jobs and incomes and that fall within the key sectors identified in *Economic Renewal* will be encouraged alongside graduate spin-outs that may also have high-potential impact on the Welsh business birth rate levels. This will involve more specialism in idea generation and supply chain development

¹¹⁴ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence.

around key sectors where there are major commercial opportunities. Focus will also be given to support self-employment and the provision of information to businesses, especially online to ensure easy access to clear guidance on opportunities, rules and regulations.

1.280 A number of initiatives run under the auspices of the Welsh Assembly Government's Entrepreneurship Action Plan have made good progress in supporting new start-ups, encouraging more young people to see self-employment as a career option and promoting more enterprising behaviour by existing firms. To support the drive towards an economy that is focused on improving the quality and sustainability of new and existing jobs, it will be important to focus resources on businesses and sectors identified as most likely to create the greatest impact and offer better value for money; that is, strong, high growth and added-value sectors such as aerospace, automotive components, and leisure and tourism¹¹⁵. It will also be important to provide targeted support for emerging sectors linked to wider regeneration opportunities and Wales Spatial Plan objectives, for example, in marine, environment and land sciences. The natural environment is recognised as one of the region's most valuable commodities. (See Priority 4). Indeed, the environment can itself be an economic driver being an integral part of the region's success in relation to tourism and having spawned the fastest growing part of the environmental economy – the environmental goods and services sector.

1.281 Following the publication of Economic Renewal: a New Direction and in order to ensure the alignment of the programme with national policy, business support in Wales was focused for the most part on 6 sectors: ICT; Energy and environment; Advanced materials and manufacturing; Creative industries; Life sciences and Financial and professional services. These sectors correspond to around one third of private sector employers in Wales in business turnover and employment terms. They have demonstrated above average growth at the UK level and are projected to perform well into the future. Particular weighting was given to those sectors which are enablers within the wider economy, for example in providing opportunities for exploiting ICT, creating green jobs, resource efficiency and moving to a low carbon economy.

1.282 Businesses that trade internationally are exposed to greater competitive pressures and are, on average, more productive, pay higher wages and increase average value-added per job. Welsh exports are rising significantly and at a faster rate than the UK average, although from a lower

¹¹⁵ The Welsh Assembly Government's *Wales: A Vibrant Economy* identifies ten sectors widely recognised as important for the future economic growth. These are automotive; aerospace; agri-food; high technology; pharmaceuticals / bio-chemicals; financial services; creative industries; construction; hospitality, leisure and tourism; and social care. However, there are a range of other sectors and clusters of importance to the development of a sustainable economy, including energy and environmental-related sectors. Further sectors may be identified following more detailed sectoral and structural analysis of change in the Welsh economy. The Welsh Assembly Government's emerging *Science Strategy* also identifies several important sectors including healthcare, low carbon energy and the physical and social / cognitive sciences that underpin sustained economic and social renewal. See <http://new.wales.gov.uk/about/strategy/strategypubs/978365/?lang=en>

base. In an increasingly global market the success of businesses in exporting is likely to grow in importance. It will be essential to provide assistance as part of an integrated sector support strategy, as well as developing the international trading capability of businesses seeking to make the breakthrough from small local or regional markets into the international arena for the first time, or to win new business in international markets. Thus while it is not proposed to undertake any generic marketing activity, there may be instances where specific support for marketing of a new product, service or facility would be appropriate, linked to niche or sector support, for example, in relation to eco-tourism or adventure tourism. There will be a particular focus on enabling businesses to be more responsive to market opportunities and promoting exports, recognising the crucial role of SMEs.

1.283 This priority will also support the development of the social enterprise sector¹¹⁶, which can provide sustainable employment opportunities and provide services of general economic interest in places that have not proved to be attractive to private investment. This is particularly relevant in peripheral communities that are physically isolated with small markets, which limit both competition and the size to which businesses can grow. This priority will support the development and growth of these social enterprises; moving them towards greater long-term sustainability and helping them progress on the business development cycle.

1.284 Investment that increases the physical capital available to workers is likely to enable them to be more productive. Where there is market failure in financial support mechanisms, for example, when businesses or social enterprises cannot obtain risk capital from conventional banks due to location, the nature of the business and perceived risk of enterprise¹¹⁷, public sector intervention will be required. This priority will also, therefore, focus on tackling some of the key financial access constraints that can hamper start-ups, productivity and value creation across a range of sectors, particularly businesses with strong growth potential.

POLICY CONTEXT

European

1.285 This particular priority tackles the key issues for raising the levels of entrepreneurship within the Programme area and makes a direct contribution to the Community's ambition to be the most progressive and well founded

¹¹⁶ Definition in The Social Enterprise Strategy for Wales.

"a social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."

ESYS figures estimate that some 620 social enterprises exist in Wales, and that a further 438 organisations were either emerging social enterprises or had the potential to become social enterprises. Information from the WCVA's Almanac indicates that the wider social economy in Wales is made up of some 30,000 organisations, providing a turnover of £1.2 billion, assets of £1.6 billion and employment for 22,900 people, of whom 14,900 work full time. Information noted within the Welsh Assembly Government's *Social Enterprise Strategy for Wales*, June 2005: <http://new.wales.gov.uk/docrepos/40382/sjr/socialenterprise/strategye?lang=en>

¹¹⁷ Graham Review of the Small Firms Loan Guarantee Scheme, 2004.

economy in the world. This theme is highlighted in the Community Strategic and Integrated Guidelines. European thematic policies and programme particularly relevant to this priority include, for example:

- the EU's Competitiveness and Innovation programme 2007–2013¹¹⁸;
- the EU Entrepreneurship Action Plan¹¹⁹;
- Europe 2020 includes a flagship initiative : "An industrial policy for the globalisation era" which will support entrepreneurship, to promote the competitiveness of Europe's primary, manufacturing and service industries and help them seize the opportunities of globalisation and of the green economy. The "Smart Regulation" agenda looks at improving the business environment, particularly for SMEs, and supporting entrepreneurship; and
- Communication from the Commission in June 2008, "Think Small First" A "Small Business Act" for Europe 2008, cements the needs of SMEs at the heart of the Lisbon Growth and Jobs Strategy and aims to make the EU a world-class environment for SMEs.

National

1.286 A number of thematic, national strategies and programme of the Welsh Assembly Government are also relevant to this priority. These include:

- *W:AVE* focuses on delivering strong and sustainable economic growth by helping more people into work and helping to raise earnings for those in work. To achieve this and to help support business productivity and value creation across a range of sectors, *W:AVE* draws on key actions, including: creating a strong culture of enterprise to encourage business start-ups and the growth of existing ones; investing in businesses through a range of focused advice and financial services, and encouraging international trade.
- The *Wales Spatial Plan* forms a key part of promoting a sustainable, innovative and high value economy for Wales. In relation to this Priority the work includes: supporting companies relocating or investing in Wales; investments in knowledge transfer initiatives; achieving a critical mass of businesses in key economic areas; economic advantages and potential, from tourism to specialist high-tech industries.
- *Wales: A Better Country*, recognises that Wales cannot and should not try to compete on cheaper labour costs; skills and innovation are critical if Wales is to compete on adding value and improve on relative GDP figures in a modern, global economy.

¹¹⁸ European Commission proposal:

http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

¹¹⁹ *EU Entrepreneurship Action Plan*:

http://ec.europa.eu/enterprise/entrepreneurship/action_plan/index.htm

- *Knowledge Bank for Business*¹²⁰
- *International Trade Strategy for Wales*¹²¹
- *Entrepreneurship Action Plan*
- *Social Enterprise Strategy for Wales*

1.287 The Welsh Assembly Government's approach to economic development and to business support in particular, was fundamentally reviewed in 2010. The new approach, set out in *Economic Renewal: a New Direction*, established that resources should be concentrated where they can add the most value and act as an enabler of growth for the economy as a whole. The gradual progression from a grant to an investment culture is complemented by a sector-based focus to better target intervention in areas where Wales can gain a competitive advantage. Six sectors are identified:

- ICT
- Energy and environment
- Advanced materials and manufacturing
- Creative industries
- Life sciences
- Financial and professional services.

1.288 Reflecting the change in policy in July 2010 and with the agreement of the All Wales Programme Monitoring Committee, resources under this Priority for the remainder of the Programme period were reduced and focused on support for the six key sectors, and providing finance in the form of re-payable grants. Direct delivery of business support services would no longer be a priority unless specific and evidenced gaps in the market are identified or specific policy objectives need to be met.

TARGETS AND INDICATORS

1.289 The following indicators will be used to track the progress of projects and the Programme. Further details can be found at Annex D.

Table 14. Indicators to track progress of projects and the programme – ERDF Priority 2

Indicator	Baseline	Target
Outputs		
Enterprises assisted (90% SMEs)	102,500 enterprises active, 2003 (WAG, 2004, Size Analysis of	9,000

¹²⁰ Welsh Assembly Government's *Knowledge Bank for Business*: <http://new.wales.gov.uk/topics/businessandconomy/help/businessadvice/KB4B/?jsessionid=E510C4213122F8746A4AA66E3CA2ABBA.www2?lang=en>

¹²¹ Welsh Assembly Government's *International Trade Strategy for Wales*, March 2003: <http://www.walestrade.com/news/pdf/World%20of%20opportunity%20Eng.pdf>

		Welsh Business)	
Enterprises financially supported		102,500 enterprises active, 2003 (WAG, 2004, Size Analysis of Welsh Business)	900
Social enterprises assisted		-	200
Social enterprises financially supported		-	100
Individuals assisted to set up a new enterprise		-	9,700
Individuals financially supported to set up a new enterprise		-	770
Destination Marketing Campaigns		-	3
Results			
Gross jobs created		777,000 workplace employment, 2005 (WAG, 2006, Workplace Employment by Industry in Wales)	11,000FTE
Enterprises created		3,790 VAT registrations, 2005 (DTI Small Business Service)	5,000
Profit benefit		-	£143,100,000
Enterprises adopting or improving equality strategies and monitoring systems		-	50% of firms assisted and financially supported
Enterprises adopting and implementing Environmental Action Plans		-	20% of firms assisted and financially supported
Investment induced		£2,817 million all Wales net capital expenditure, 2004 (ONS, 2006, Annual Business Inquiry)	£135,000,000
Increase in level of export		£8,645 million all Wales export, 2005 (HM Revenue and Customs)	£80,000,000
Number of new and lapsed visitors		-	160,000
Spend by new/lapsed visitors		-	£26,000,000
Impacts			
Net jobs created		-	-
Increase in turnover		-	-
Net enterprises created		-	-
Net increase in level of export		-	-
Increase in company-level GVA		-	-

BENEFICIARIES

1.290 These may include the Private sector, Public sector bodies, Local Authorities, Voluntary sector bodies, Community organisations, Training Organisations, Institutes of Higher Education, Institutes of Further Education, Social Enterprises, Non-governmental organisations (NGOS), Social Partners and Training Organisations.

OPERATIONAL STRATEGY

1.291 This priority will be delivered through two themes.

Theme 1: Entrepreneurship

1.292 This theme aims to build a stronger environment for enterprise by supporting new and existing businesses, particularly those with the capacity to grow. This will be achieved by:

- supporting the start-up of new enterprises;
- supporting the growth of existing enterprises, particularly those with the capacity to grow;
- promoting opportunities to grow the sectors in which West Wales and the Valleys is strong, or those which it is seeking to develop;
- building the sustainability of community and social enterprises by increasing their economic contribution.

Indicative activities

- improving the capacity of SMEs and social enterprises to purchase intelligently from the open market and to make best use of private provision;
- raising the quality of private sector business support by setting and imposing competency standards for advisers and improving the range of tools available;
- where there are gaps in the market, putting in place targeted business support including any specific sectoral requirements arising from particular emerging sector strategies;
- identifying natural clusters and providing support to facilitate growth and development and networking;
- targeted development of a culture of entrepreneurship, for example by encouraging graduates into self-employment;

- ensuring the accessibility of support and providing targeted support for under-represented groups that have the capability to be entrepreneurs;
- ensuring integrated support mechanisms for firms, working with skills, innovation, property, finance and marketing;
- focussed business and development support for social enterprises which might include marketing and awareness raising campaigns that improve access to support and finance, promote best practice, research new opportunities and help lead to a culture of financial sustainability, delivered to link in with mainstream business support when complete; and
- marketing and business support initiatives for sustainable tourism which increase the value added contribution of the sector to the Welsh economy. (The value of the ERDF contribution to this activity will be limited to around €5 million).

1.293 We expect that this theme will absorb around 47% of the resources for this priority.

Theme 2: Business finance

1.294 This theme aims to assist the growth and expansion of business by improving access to business finance, where there is clear market failure, and by supporting and accelerating Welsh exports. This will be achieved by:

- providing debt finance and venture capital to address market failures in financial support mechanisms required to create new SMEs and develop existing ones;
- providing discretionary, focused grant support packages for businesses, including, but not limited to, high growth sectors; and
- supporting and accelerating Welsh exports.

Indicative activities:

- providing public/private venture capital investments within the context of Welsh Assembly Government initiatives including the Knowledge Bank for Business, Techniums, SMART and Spinout programmes;
- provision of flexible support for identified barriers for business, which may include start-up costs and growth thresholds;
- providing advice and financial support for businesses seeking to start-up overseas operations, such as support to link businesses into

overseas customers, support to enable businesses to market and promote themselves successfully.

1.295 We expect that this theme will absorb around 53% of the resources for this priority.

1.296 The high take-up of similar interventions under the current programme and other information is evidence of the long term market failure in the supply of business support and finance. However, some progress has been made and the goal of this Priority is to provide sufficient encouragement and support to ensure that over the life of the programme these voids are filled - ultimately by the private sector becoming sufficiently robust to meet the needs of their clients. As the economy develops, it is envisaged that the demand for such private sector services will grow ensuring that these interventions lead to sustainable development.

1.297 At the mid-point in the programming period (September 2010), the economic rationale for continued intervention in direct business support was less evident, and the publication of the Welsh Assembly Government's Economic Renewal programme marked a stronger emphasis on investments rather than grants. The Priority's resources would focus on where greater added value could be achieved i.e. where the private sector would not deliver and where specific gaps in the market exist.

ADDED VALUE

1.298 The main thrust of this Priority is to address market failures in the provision of advice, information and finance that have been barriers to the creation of new and expansion of existing SMEs. Some progress has been made in the life of the current programmes with a growing recognition amongst businesses that they should look to the private sector for the majority of the services they need to operate effectively. However, services businesses needs are not always available locally. At the same time, new and less traditional enterprises, and especially those run by women and under-represented groups, face additional hurdles in persuading investors to participate in their ventures.

1.299 The use of Structural Funds will enable the services that the public sector can offer to be made more widely available and offer more in depth support. This in turn will accelerate the rate of business birth and growth and the resulting impact on jobs and growth will lead to additional demands for goods and services in the region bringing about long term added value.

FLEXIBILITY FACILITY

1.300 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In

order to promote coherent implementation of actions under this Priority, a maximum of 10% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

1.301 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training to promote business start-up and business development which is complementary to the successful implementation of the ERDF funded activities, for example in relation to the start-up of new enterprises in the target sectors.

1.302 Relevant ESF indicators will be used, for example:

Table 15. ESF Indicators for Priority 2

Output	⇒ Result	⇒ Impact
Participants	Participants qualifications	gaining
	Participants employment	entering
	Participants further learning	entering
		Participants in employment at 12 months

TRANS-NATIONAL AND INTER-REGIONAL CO-OPERATION

1.303 The Region has been at the forefront of actions to encourage entrepreneurship and has some expertise in assisting the growth and expansion of business by improving access to business support, advice and finance on which this Priority will help it build. However, maintaining this success will depend on being alive to developments elsewhere and having access to the outcome of evaluation and research findings of similar interventions elsewhere. These are areas where there is considerable scope to engage in projects designed to distil best practice but also to take advantage of novel and innovative ideas and processes used in other regions. The same applies in the case of interventions to develop international trading capacity: in an increasingly global market it will be important to share best practice and learn from the experiences of other Regions. While it is not possible at this stage to determine exactly the types of activities that will be funded there is an opportunity for trans-national and inter-regional collaborative projects to be funded under the ERDF.

GLOBAL GRANTS

1.304 We do not envisage use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

ERDF PRIORITY 3: DEVELOPING STRATEGIC INFRASTRUCTURE FOR A MODERN ECONOMY

OBJECTIVE

1.305 To equip the region with the physical infrastructure necessary for the development of a modern and competitive economy and to promote agglomeration effects and sustainable integrated urban regeneration.

RATIONALE

1.306 This Priority seeks to increase accessibility within the region and to promote agglomeration, to enable individuals to access employment opportunities and to provide businesses with access to markets. This requires developing and implementing sustainable integrated transport solutions and infrastructure for the region, particularly investment in the strategic TEN-T and other transport networks. It also involves ensuring that the region has locations, sites and premises of the highest quality that will attract and grow jobs and providing the people of the area with institutions and centres where they can obtain the knowledge and skills to fit them for those employment opportunities. Through the innovative use of financial instruments investing by means of equity, loans and guarantees it will also promote sustainable physical regeneration of deprived areas, attracting people and investment.

1.307 Serving as the backbone needed to strengthen the region's economic infrastructure and achieve agglomeration effects in a dispersed region with low population density¹²² is the development of an efficient and effective transport system. This will facilitate the movement of goods in a sustainable manner and provide the links to markets in the UK, other parts of Europe and elsewhere. Transport also has a vital role to play in helping to develop a more inclusive society within the region. Improving access to employment opportunities and key services in the main sub-regional and local centres will help reduce economic inactivity and social inequalities, make areas attractive places to live and work and contribute to the regeneration of deprived urban and rural communities. A particular issue in south Wales is the need to improve connectivity between communities in the Valleys and the major employment centres which have developed along the coastal fringe (the so-called M4 corridor). The draft Wales Transport Strategy, *Connecting Wales*¹²³,

¹²² Rice and Venables, 'Spatial determinants of productivity analysis for the regions of Great Britain', CEP Discussion Paper No.642, June 2004.

Boddy and Hudson, 'Meeting the Productivity Challenge' A report for the South West of England Regional Development Agency
http://download.southwestrda.org.uk/file.asp?File=/res/general/meeting_the_productivity_challenge.pdf Graham, 'Wider Economic Benefits of Transport Improvements: Link Between Agglomeration and Productivity. Department of Transport 2005.

¹²³ The Welsh Assembly Government's draft *Wales Transport Strategy – Connecting Wales*:
<http://new.wales.gov.uk/consultations/closed/busandeconclocons/con-bus-transstrategy/?lang=en>

emphasises the need for a modal shift to public transport to reduce the growth in car dependency. Activities must also seek to widen access to transport facilities for all, and tackle barriers to employment, training and other services faced by disabled people, many women, and older people whose access to transport, particularly in rural or remote areas, can be limited¹²⁴.

1.308 Such developments will complement other transport initiatives designed to overcome some of the problems arising from the peripherality of the region. The Welsh Assembly Government is taking forward a major programme of investment in the strategic road network, particularly the M4/A40/A465 corridor in south Wales and the A55 corridor in north Wales. This will provide enhanced accessibility to markets, including improved links to the ports in west Wales. The region includes four ports with services to Ireland, namely Swansea, Pembroke Dock, Fishguard and Holyhead. It also includes two deep-water ports: Port Talbot, which deals mainly with iron ore and coal, and Milford Haven, which handles mainly petroleum products and, in the future, Liquefied Natural Gas.

1.309 Supporting the growth of population and commercial critical mass also requires places to attract and retain well qualified people and a diverse business community. Among the most important elements in creating a sustainable, thriving business community are high quality sites and premises¹²⁵, and a good supply of skilled workers¹²⁶ that can meet the needs of modern, competitive businesses and entrepreneurs to create or grow new or existing small businesses. These workers need not only to be attracted to the business community, through relocation, but also available within it. Investment and employment opportunities can be lost to the region partly because of the absence of high quality business sites and premises for a range of industries and sectors¹²⁷. A focused approach will be required to achieve a modernised knowledge economy with the supply of high quality sites and premises that can secure employment from start-up organisations, indigenous business and inward investors in high growth areas, such as high technologies¹²⁸.

1.310 The *Property Strategy for Employment in Wales 2004-2008*, provides a basis for focused intervention. The strategy is underpinned by analysis of demand and supply indicating where gaps arise as a consequence of market

¹²⁴A Discussion paper, Gender Equality in Public Services: Care for Older People (March 2006), from the Welsh Consumer Council and Equal Opportunities Commission in Wales on the forthcoming Gender Equality duty highlights the differing access to transport that men and women have as a key area to be tackled. Solutions to differing access to services would also have a positive outcome for older people and disabled people.

[http://www.eoc.org.uk/pdf/Gender%20Equality%20in%20Public%20Services%20-%20Care%20for%20older%20people%20\(english\).pdf](http://www.eoc.org.uk/pdf/Gender%20Equality%20in%20Public%20Services%20-%20Care%20for%20older%20people%20(english).pdf)

See also: Cartmel, F and Furlong, A, 2000. Youth Unemployment in Rural Areas. A Report for the Joseph Rowntree Foundation.

¹²⁵ DTZ PIEDA Consulting highlighted that availability of property is an important factor in the location of mobile traded services.

¹²⁶ See for example, Glaeser, E, 2004 Four Challenges for Scotland's Cities:

<http://www.fraser.strath.ac.uk/Allander/Allander%20Papers/Glaeser.pdf>

¹²⁷ Property Strategy for Employment in Wales 2004–2008, Welsh Development Agency (now the Welsh Assembly Government): <http://www.wda.co.uk/resources/WDAProperty1.pdf>

¹²⁸ Welsh Assembly Government's Wales: A Vibrant Economy:

<http://new.wales.gov.uk/about/departments/dein/publications/wave?lang=en>

failure or market dysfunction and aligning property solutions to sectors and general locations. The Strategy envisages a broad spectrum of responses, not only stand alone developments but more complex interventions (including the use of land assembly powers, demolition and reclamation) which are needed in the central areas of towns where quality space is lacking and in the selective rationalisation of poor quality estates. The Strategy recognises the property market is dynamic and the analysis of demand and supply is being undertaken on an annual basis.

1.311 To support the Welsh Assembly Government's objectives on sustainable development and equality of opportunity, it will be essential to ensure that sites and premises are tested for fit with the sustainable development priorities in *Creating Sustainable Places*¹²⁹ (i.e. environmental credentials, economic rationale, community impact / benefit and design quality). In essence to ensure that proposals are developed in an integrated way, reflecting the roles and functions of places. The facility to create an Urban Development Fund through the European Commission's JESSICA financial instrument will enable additional investments by means of equity, loans and guarantees in projects included in an integrated plan for sustainable urban development related to the physical regeneration of deprived communities as well as investments in sites and premises. Improvements to the physical environment and efforts to regenerate communities facing economic and social disadvantage are vital to underpinning wider sustainable economic development.

1.312 Encouraging more businesses and highly paid jobs to an area requires sufficient people in the region's workforce with the skills to fill the jobs businesses want to create or attract. Attracting and retaining highly skilled, mobile individuals relies on the region being perceived as a desirable location. The Leitch Review of Skills (2005)¹³⁰ reveals that we need to make radical changes to ensure that our economy can compete in global markets. Ensuring that the region has a modern learning infrastructure helps to attract both businesses and individuals and provides the foundations for the knowledge economy. Integrating this with regeneration strategies can help to raise the performance of the economy in those parts of the region facing particular economic and social challenges. Carefully co-ordinated investment in learning infrastructure will be done to complement work on sites and premises.

1.313 While it is anticipated that the main Convergence contribution to strengthening the learning infrastructure will be provided under the ESF Convergence programme (utilising the 10% flexibility provided under 34(2) of Regulation (EC) 1083/2006), this will not be sufficient to support large scale projects of the kind envisaged. The ERDF will therefore also contribute to this reform agenda by supporting a small number of significant transformational investments. The aim will be to create synergies with other actions funded under this programme (e.g. business sites and premises and R&D and

¹²⁹ The Welsh Assembly Government's *Creating Sustainable Places*:
http://new.wales.gov.uk/topics/sustainabledevelopment/sustainable_development_publicat/cr_eatingsusplaces?lang=en

¹³⁰ The Leitch Review of Skills interim report, *Skills in the UK: The long-term challenge*:
http://www.hm-treasury.gov.uk/independent_reviews/leitch_review/review_leitch_index.cfm

Innovation) while also complementing and increasing actions funded under the ESF Convergence programme aimed at tackling low skills and inactivity.

POLICY CONTEXT

European

1.314 This Priority is designed to make the Programme area more attractive to investment by improving the transport and other business infrastructure and helping to prepare the people of the area with the environment in which to learn married to opportunities to put their skills and talents to productive use. The key links are to

- Guideline 1.1.1: Expand and improve transport infrastructures.
- Guideline 4.3.3: Increase investment in human capital through better education and skills.

1.315 This Priority also reflects:

- European Transport White Paper *European Transport Policy for 2010: Time to decide*¹³¹, COM(2001) 370 which highlights the negative impact of congestion on economic competitiveness, and the need for regions that are excessively isolated to improve their links with central markets to ensure regional cohesion. Networks are considered the arteries of the Single Market and emphasis is placed on improving the quality and safety of road transport and promoting more sustainable forms of transport;
- Europe 2020 recognises that Member States need to develop smart upgraded and fully interconnected transport infrastructures and the EU needs to ensure transport networks enable industry to have effective access to the Single Market and international markets beyond;
- *Keep Europe moving - Sustainable mobility for our continent*, Mid-term review of the European Commission's 2001 Transport White Paper¹³², SEC (2006) 768.
- *Lisbon Agenda - 2003 call to arms*. This document puts education and training central to economic and social cohesion and argues that much more transformation is needed and that the EU lags behind its competitors in terms of investment in a knowledge-based society.
- EU Communication: *Making a European Area of Lifelong Learning a Reality (2001)* refers to investment for infrastructure such as multi-

¹³¹ European Commission's *European Transport Policy for 2010: Time to decide*
http://ec.europa.eu/transport/white_paper/index_en.htm

¹³² Mid-term review of the European Transport White Paper
http://ec.europa.eu/transport/transport_policy_review/doc/com_2006_0314_transport_policy_review_en.pdf

purpose centres. It states “Member States are invited to develop further their use of the European Regional Development Fund (ERDF) and the ESF to support the implementation of lifelong learning.”

- The TEN-T days 2010 highlighted the need to move from a patchy assembly of partly completed national TEN-T sections to a truly interconnected, interoperable, sustainable, user-friendly and safe TEN-T network, decisively enhancing the European added value of a European infrastructure policy. Infrastructure investments, in particular transport infrastructure can ensure growth and competitiveness for Europe provided that it is given due political priority.
- The European Commission’s *Bristol Accord* highlights characteristics that constitute a sustainable economy and are relevant to this priority: active, inclusive and safe; well run; well connected; well served; thriving; environmentally sensitive; well designed and built and fair for everyone.
- The *European Spatial Development Perspective’s* themes include dynamic attractive and competitive cities and urbanised areas. The approach recognises that efficient transport and adequate access to telecommunications are a basic prerequisite for strengthening the competitive situation of peripheral and less favoured regions and hence for the social and economic cohesion of the EU.
- The Communication from the Commission to the Council and Parliament of 13 July 2006 - Cohesion Policy and cities - The urban contribution to growth and jobs in the regions; reflects the possibilities for intervention in urban areas by the Structural Funds under the following headings: making cities more attractive; supporting innovation, entrepreneurship and the knowledge economy; the creation of more and better jobs; managing disparities within cities; governance. financing urban renewal.
- The Leipzig Charter on sustainable European cities emphasises the importance of cities in the formulation of future EU policies and the integration of the urban dimension in different policies. It advocates creating and ensuring high-quality public spaces; modernizing infrastructure networks and improving energy efficiency; proactive innovation and educational policies, and supporting deprived neighbourhoods.
- The Territorial Agenda of the EU expands the policy guidelines of the ESDP to six priorities for spatial development measures: strengthening of polycentric development and innovation through networking of city regions and cities; new forms of partnership and territorial governance between rural and urban areas; promotion of regional clusters of competition and innovation; strengthening and extension of trans-European networks; promotion of trans-European risk management including the impacts of climate change; strengthening of ecological structures and cultural resources as added value for development

- The Thematic Strategy on the Urban Environment on 11 January (2006) builds on existing European policy initiatives for improving the quality of the urban environment. It sets out new measures to support and facilitate the adoption of integrated approaches to the management of the urban environment by national, regional and local authorities.

National

1.316 Following the enactment of the Transport (Wales) Act 2006¹³³, the Welsh Assembly Government has a statutory requirement to prepare and publish a Wales Transport Strategy. The Assembly Government, working with local authorities in Wales, has developed a draft strategy, *Wales Transport Strategy – Connecting Wales*¹³⁴. This Strategy recognises that transport systems are central to all aspects of sustainable development: to a thriving economy; to giving people in deprived communities better access to jobs and services; and to developing alternatives to private car use and reducing greenhouse gas emissions. It is closely linked to the Wales Spatial Plan and will be implemented through four Regional Transport Plans prepared by the existing transport consortia.

1.317 Given the cross-cutting nature of transport, there are strong links to other Welsh Assembly Government policies including the *Environment Strategy for Wales*¹³⁵, *Designed for Life*¹³⁶, *A Learning Country*¹³⁷ and *Achieving our Potential, 2005–2013*¹³⁸.

1.318 *The Property Strategy for Employment in Wales 2004-2008*¹³⁹ provides a focused framework to facilitate the provision of high quality employment sites and premises in the right locations for inward investors and indigenous businesses.

1.319 *Planning Policy Wales 2002*¹⁴⁰ contains the Welsh Assembly Government's policies for the land use planning system. It reconciles the needs of development and conservation, securing economy, efficiency and

¹³³ The Transport (Wales) Act 2006, Office of Public Sector Information:

<http://www.opsi.gov.uk/ACTS/acts2006/20060005.htm>

¹³⁴ The Welsh Assembly Government's draft *Wales Transport Strategy – Connecting Wales*:

<http://new.wales.gov.uk/consultations/closed/busandeconclocons/con-bus-transstrategy/?lang=en>

¹³⁵ Welsh Assembly Government's *Environment Strategy for Wales*:

http://new.wales.gov.uk/topics/environmentcountryside/epq/Environment_strategy_for_wales/About_the_strategy/?lang=en

¹³⁶ Welsh Assembly Government's *Designed for Life*:

<http://new.wales.gov.uk/topics/health/publications/designedforlife/?lang=en>

¹³⁷ Welsh Assembly Government's *A Learning Country*:

http://new.wales.gov.uk/topics/educationandskills/policy_strategy_and_planning/learning/?lang=en

¹³⁸ Welsh Assembly Government's *Achieving our Potential*:

<http://new.wales.gov.uk/topics/tourism/283366/?lang=en>

¹³⁹ *Property Strategy for Employment in Wales 2004-2008*, Welsh Development Agency (now the Welsh Assembly Government): <http://www.wda.co.uk/resources/WDAProperty1.pdf>

¹⁴⁰ Welsh Assembly Government's *Planning Policy Wales 2002*:

<http://new.wales.gov.uk/about/departments/depc/epcpublications/PlanPubs/plpolwal/?lang=en>

amenity land-use, and protecting the natural and historic environment. The *Wales Spatial Plan* recognises the need to encourage the vitality of communities as attractive places to live and work and to reduce inequalities between communities while retaining their character and distinctiveness. It stresses the need for regeneration to be achieved in a coherent, integrated way, to take the social, economic and environmental needs of communities into equal account.

1.320 The Welsh Assembly Government *Learning Country: Vision in to Action (2006)*¹⁴¹ calls for the creation of a new learning infrastructure and recognises that education is a critical success factor in economic success and sustainable development. The *Learning Country: Vision into Action* and *Learning Pathways 14-19* both identify that investment in the learning infrastructure will contribute to increasing the quality and effectiveness of the education and training system.

1.321 The Welsh Assembly Government's economic development policy was refocused in 2010. Economic Renewal: a New Direction placed a greater emphasis on providing the right environment for businesses to grow including providing a modern, sustainable infrastructure. Wales has specific and long-standing challenges stemming from geography and topography. Faster connections – physical and electronic – increase productivity and reduce costs for businesses. Wales needs modern, sustainable infrastructure to underpin economic growth and the wellbeing of its citizens.

TARGETS AND INDICATORS

1.322 The following indicators will be used to track the progress of projects and the Programme. Further details can be found at Annex D.

Table 16. Indicators to track progress of projects and the programme – ERDF Priority 3

Indicator	Baseline	Target
Outputs		
Public transport services created or improved	78,341,000 vehicle km, 2005/06 (Department for Transport)	2,500,000 vehicle km
Intermodal facilities created or improved	-	100
Railroads created or reconstructed	-	30km
Access route created or reconstructed	2,196km of road, 2006 (WAG)	26km
Footpath or cycleway created or reconstructed	-	50km
Land developed	-	35ha

¹⁴¹ The Welsh Assembly Government's *The Learning Country: Vision into Action*: <http://new.wales.gov.uk/topics/educationandskills/educationskillsnews/wales-action-on-learning?lang=en>

Physical improvement schemes	-	3
Results		
Gross passenger kilometres on public transport	66,000,000 bus journeys, 2005/06 (Department for Transport); 5,934,000 rail passenger journeys, 2004/05 (Office of Rail Regulation)	400,000,000 passenger km
Investment induced	-	£40,000,000
Premises created or refurbished <i>-of which learning infrastructure (including a maximum of 2 learning infrastructure investments)</i>	-	27,500m ² 15%
Jobs accommodated	-	825
SMEs accommodated	-	150
Participants accommodated	-	2,000
Gross jobs created	777,000 workplace employment, 2005 (WAG, 2006 Workplace Employment by Industry in Wales)	1,000FTE
Impacts		
Net goods on rail or sea freight	-	-
Net passenger kilometres on public transport	-	-
Value for time savings	-	-
Population within travel time threshold of a 'key centre'	-	-
Occupancy rates	-	-
Net jobs created	-	-

BENEFICIARIES

1.323 These may include the Private sector, Public sector bodies, Local Authorities, Voluntary sector bodies, Community organisations, Training Organisations, Institutes of Higher Education, Institutes of Further Education and Non-governmental organisations (NGOS) and Social Enterprises.

OPERATIONAL STRATEGY

1.324 This priority will be delivered through two themes:

Theme 1 – Sustainable transport

1.325 This theme seeks to increase accessibility within the region and to promote agglomeration effects by developing sustainable transport solutions. This will be done by:

- supporting key rail and road enhancements, particularly those on or closely linked to the TEN-T network, which improve accessibility to European markets;
- reducing the level of car usage, particularly single occupancy commuting;
- increasing public transport usage and enhancing accessibility to employment opportunities and key services;
- reducing congestion and carbon emission levels;
- reducing road haulage of goods and encouraging rail and sea freight; and
- improving accessibility for people in the Programme area to open up access to jobs, employment opportunities and key facilities;

Indicative activities

- enhancement of the TEN-T road and rail network to enhance reliability and remove capacity pinch points;
 - enhancement of some roads links that have significant wider benefits in terms of economic development, regeneration or access to key facilities;
- developing sustainable urban transport, particularly rail and bus services, to encourage modal shift;
- community transport solutions and investment to encourage walking and cycling for transport (rather than recreation) which may include awareness raising campaigns;
- promoting the movement of freight by rail and by sea rather than by road, for example, by investment in enhanced inter-modal facilities;
- supporting the technology needed to develop renewable and cleaner fuels; and

- innovative schemes that will serve as exemplars or models of best practice in sustainable transport solutions including projects that break down attitudinal barriers, which prevent people using modes other than the private car.

1.326 The Programme would not be used to support any projects on the two TENs priority axes spanning Wales which receive funding under the TENs Multi Annual Programme. These are Priority axis No 13, the United Kingdom/Ireland/Benelux road axis and Priority axis No 26, the railway/road axis Ireland/United Kingdom/continental Europe. Both of these priority axes cover the east-west road and rail corridor across North Wales.

1.327 We expect that this theme will absorb around 80% of the resources for this priority.

Theme 2 – Strategic infrastructure

1.328 This theme aims to equip the region with infrastructure necessary for the development of a modern and competitive economy by ensuring that the region has locations, sites and premises of the highest quality. This will be done by:

- supporting the implementation of site infrastructure for the development of high quality business accommodation;
- developing high quality business accommodation to support the creation and growth of modern businesses, the development of clusters, and attract inward investors;
- supporting a small number of high impact learning infrastructure projects aimed at increasing the quality and effectiveness of the education and training system; and
- supporting sustainable integrated urban regeneration schemes through the implementation of a JESSICA Financial Engineering Instrument.

Indicative activities

- development of high quality sites and premises, ensuring all sites and premises meet environmental standards (e.g., BREEAM) and the needs of disabled staff and customers;
- provision of infrastructure for development sites (e.g. roads, ICT, water, drainage, waste, energy);

- the demolition of derelict / functionally obsolete buildings, essential site decontamination and land reclamation to facilitate the provision of infrastructure for the development of sites;
- environmental / landscaping improvements to existing industrial / business parks;
- associated strategic capital investment based on strategic reviews for the building, refurbishment or adaptation of learning environments;
- development of modern vocational learning facilities linked to economic development and regeneration strategies. Projects will be large scale, limited in number (two or three) and transformational in nature; and
- Investment by means of equity, loans and guarantees, in projects included in an integrated plan for sustainable urban development.

1.329 We expect that this theme will absorb around 20% of the resources for this priority.

ADDED VALUE

1.330 Investment in infrastructure is important for the ability of the region to regenerate itself. While national programmes exist in relation to, for instance, the transport network and planning and property development, they are limited in absolute terms and face ongoing demands for maintenance and refurbishment. The Structural Funds provide opportunities for additional or enhanced investments which will prioritise the need for integrated sustainable transport solutions. By addressing the transport problems affecting the economic regeneration of the region, it will be able to attract investment and regeneration can be sustainable.

1.331 The added value provided by the Structural Funds will also speed up the supply of sites and premises, and ensure those provided are of a high quality, addressing both real and perceived barriers to long term growth. The improvement and remediation of infrastructure and facilities, to a high standard, would not occur in many areas without the assistance of Structural Funds. This Priority will support holistic sustainable approaches to urban development, incorporating both the provision of sites and premises for businesses as well as improvements to physical infrastructure, where included in an integrated plan for sustainable urban development. The use of the JESSICA Financial Engineering Instrument and varied forms of investments such as equity, loans and guarantees will result in an ERDF “legacy” for urban regeneration in West Wales and the Valleys, extending beyond the end of the programming period, and therefore greater impact from Structural Fund investment in the region.

FLEXIBILITY FACILITY

1.332 We do not envisage using the flexibility facility allowed for by Art 34(2) of Regulation (EC) 1083/2006 of 11 July 2006.

TRANS-NATIONAL AND INTER-REGIONAL CO-OPERATION

1.333 While the Region faces particular issues relating to transport and infrastructure provision as a consequence of its landscape and history, it is not alone in seeking sustainable integrated transport solutions and improving accessibility. There are notable examples of effective solutions to be found in other regions. Together with its strong commitment to developing sustainable solutions offering equality of opportunity, the types of projects to be funded under this Priority should also bring forward examples of how to overcome the challenges that the Region faces in terms of physical development. The use of ERDF funding for trans-national and inter-regional collaborative actions, will present the opportunity to share best practice on a wide range of approaches to such problems. The exchange of expertise from other European regions in successfully implementing these activities would be particularly valuable.

GLOBAL GRANTS

1.334 We do not envisage the use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

ERDF PRIORITY 4: CREATING AN ATTRACTIVE BUSINESS ENVIRONMENT

OBJECTIVE

1.335 To promote sustainable business growth and new business opportunities in relation to future environmental challenges and opportunities.

RATIONALE

1.336 In addition to providing support for the key drivers that can have an impact on value creation by individual firms (which is the focus of Priorities 1 and 3) it is essential to create a high quality environment in which to live, work and invest. Quality of life plays a vital role in attracting people and businesses to a region. Regions that can offer a high quality environment and a positive lifestyle with local character and distinctiveness will provide a firm basis for sustainable economic growth. Factors such as the wider natural and built environment significantly influence perceptions about particular locations and evidence of this is seen with the in-migration rates to the more rural parts of West Wales and the Valleys.

1.337 In addition, firms need to be equipped sufficiently to thrive in the current and future economic and environmental landscape. The challenges of climate change, mitigating the causes and adapting to the impacts, are becoming increasingly important to all sectors of society. It will be important to drive forward an integrated approach towards energy generation and energy efficiency that can both support economic growth and create new business opportunities. This will build on the work of the Welsh Assembly Government's energy policy, which aims to increase the use of clean, renewable and low carbon sources of energy generation, increase energy efficiency and support significant investment in energy infrastructure to bring renewables into the network. By reducing the region's dependency on traditional sources of energy there is tremendous natural potential for clean energy generation from renewable and low carbon sources such as clean coal/carbon capture, wave, wind, solar, CHP and biomass development. This also provides opportunities for innovation and R&D, as well as exports. Alongside this, actions will also need to encourage increased energy efficiency and conservation across all sectors. These interventions will also help to slow the growth of greenhouse gas emissions and help tackle the broader issues of climate change.

1.338 Structural Funds interventions under this Programme will be aimed at building on the five important strands of the Welsh Assembly Government's energy policy. This aims to reduce CO₂ emissions, increase the proportion of electricity generated by renewable sources and cleaner, higher efficiency fossil fuel plants, increase energy efficiency across all sectors and support significant energy infrastructure improvements.

1.339 All forms of resource efficiency, and the effective management and re-use of waste, will contribute to the aims of a low carbon economy, due to the embedded energy added during manufacture, distribution and collection. The aim will be to encourage a more sustainable pattern of consumption and production that will place emphasis on greater efficiency across all sectors. Equally important will be the concept of eco-design, whereby the embedded carbon content of goods and services can be minimised.

1.340 Effective management of natural resources for businesses, and innovative approaches to improving inland and coastal flood defences¹⁴² and associated erosion protection would enable Wales to take advantage of these new enterprise opportunities, whilst continuing to build up the resilience of the built and natural environment to the impacts of climate change.

1.341 Much of West Wales and the Valleys benefits from an attractive, natural environment and this should give the region competitive advantage. The region is rich in diversity and has dynamic land, coastal and inland water habitats. Both the land and sea support a variety of industries and economic activities, while its intrinsic beauty reflects the region's cultural and historical character. These environmental assets are also useful for enjoyment and can significantly influence tourism and the quality of life. It will be important to realise the economic value and wealth generation that can arise from using the natural environment for physical activity and enjoyment. Encouraging more people to use the countryside and coastal areas provides opportunities for creating new businesses and for encouraging existing businesses to improve the quality of the products and services on offer. However, there are other areas that suffer from land contamination resulting from Wales' industrial past. Addressing these environmental inequalities in a coherent way will help attract new and innovative businesses with attendant job opportunities to these areas which are currently regarded as less attractive. Such economic reinvigoration will help improve the health and well being of the people living in the area. For example, the improvement of the quality of the riverside environment and establishing river walks, and cycle and jogging tracks.

1.342 The Welsh Assembly Government is committed to creating the conditions necessary for people to lead healthy lives and improve their health and well being through support for 'Health Challenge Wales'. Leisure and recreation activities make an important contribution to local amenities and healthier lifestyles, and the Welsh Assembly Government is committed to increasing the number of people who use the natural environment for physical activity and enjoyment¹⁴³. These activities provide economic opportunities, as well as broader health, well being and environmental benefits. For example, the Pembrokeshire Coastal Path generates around £14 million annually for

¹⁴² The Flood and Coastal Risk Management Branch of the Welsh Assembly Government has an emergency plan in place for Wales. Operational responsibility for small scale flood management plans lies with the Environment Agency, Internal Drainage Boards and Local Authorities.

¹⁴³ Welsh Assembly Government's *Environment Strategy for Wales*.

<http://new.wales.gov.uk/topics/environmentcountryside/epq/Envstratforwales/?lang=en>

the local economy¹⁴⁴ and a recent survey¹⁴⁵ showed that national trails offered significant additional income and improved profitability to accommodation providers located nearby.

POLICY CONTEXT

European

1.343 This Priority addresses the two closely linked Community Strategic Guidelines relating to strengthening the synergies between environmental protection and growth as well as addressing the use of traditional sources of energy. European thematic policies and programme relevant to this priority include:

- the EU's 6th Environmental Action Programme¹⁴⁶;
- the EU's Environmental Technologies Action Plan¹⁴⁷;
- Green paper on Secure, Competitive and Sustainable Energy for Europe¹⁴⁸ (2006), with six lines of action for public consultation that could form the basis for a new comprehensive European energy policy;
- Green paper on Energy efficiency – Doing more with less¹⁴⁹ (2005), which discusses how the EU can curb rising energy use and arrive at a reduction of 20% by 2020;
- Directive on the promotion of end-use efficiency and energy services¹⁵⁰ (2006). This will help overcome market obstacles to the cost-effective and efficient end-use of energy in the EU using appropriate mechanisms;
- Seventh Framework Programme (FP7) for Research and Technological Development, which includes funds for energy research, demonstration and dissemination with a focus on clean energy and energy efficiency;

¹⁴⁴ National Parks for Wales Annual Report 2004–2005:

http://www.nationalparks.gov.uk/welsh_annual_report_2005_english_language.pdf

¹⁴⁵ National Trails – Economic Survey by the Countryside Council for Wales:

<http://www.nationaltrail.co.uk/article.asp?PageId=3&ArticleId=91>

¹⁴⁶ The Sixth Environment Action Programme of the European Community 2002–2012:

<http://ec.europa.eu/environment/newprg/index.htm>

¹⁴⁷ European Union Environmental Technologies Action Plan:

http://ec.europa.eu/environment/etap/index_en.htm

¹⁴⁸ European Commission. COM(2006) 105 final.

http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

¹⁴⁹ European Commission. COM(2005) 265 final.

http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_text_en.pdf

¹⁵⁰ European Parliament and Council. Directive 2006/32/EC of the European Parliament and of the council: [http://eur-](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_114/l_11420060427en00640085.pdf)

[lex.europa.eu/LexUriServ/site/en/oj/2006/l_114/l_11420060427en00640085.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_114/l_11420060427en00640085.pdf)

- The Intelligent Energy for Europe II programme¹⁵¹, which promotes further market penetration of sustainable energy technologies and funds relevant dissemination and awareness raising activities;
- The EU's emission trading scheme (2003)¹⁵². This establishes a cap and trade mechanism for Europe's CO₂ emissions across a range of sectors;
- The Waste Framework Directive¹⁵³ and the new thematic strategy being proposed (2006/12/EC)¹⁵⁴. Other waste Directives may also be relevant within this Priority¹⁵⁵; and
- The Sustainable Development Strategy adopted by the Commission on the 15-16 June 2006¹⁵⁶ sets out the strategy on how the EU will meet the challenges of sustainable development; and
- Europe 2020 includes as a headline target that "20/20/20" climate/energy targets should be met and proposes sustainable growth – promoting a more resource efficient, greener and more competitive economy. The strategy advocates the spread of innovative technological solutions and the decoupling of growth from energy use.

National

1.344 A number of thematic, national strategies and programmes of the Welsh Assembly Government are relevant to this Priority. These include:

- *W:AVE*, which recognises that an attractive and stable business environment is fundamental to encouraging sustainable economic growth. It highlights the important roles that renewable energy and energy conservation and efficiency have in creating and shaping a sustainable economic future;
- *Environment Strategy for Wales* and associated action plan provides a framework for achieving a diverse and healthy environment that contributes to the economic, social well being and health of the people of Wales;
- *Wales Spatial Plan* will contribute to many of the objectives set out under the guiding themes of building sustainable communities;

¹⁵¹ http://ec.europa.eu/energy/intelligent/index_en.html

¹⁵² Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC:

http://ec.europa.eu/environment/climat/emission/implementation_en.htm

¹⁵³ The Waste Framework Directive (75/442/EEC).

http://europa.eu.int/eur-lex/en/consleg/pdf/1975/en_1975L0442_do_001.pdf

¹⁵⁴ The codified version of the Waste Framework Directive (2006/12/EC).

http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_114/l_11420060427en00090021.pdf

¹⁵⁵ Landfill of Waste (1999/31/EC), Hazardous Waste Directive (91/689/EEC), Waste Electrical and Electronic Equipment (2002/96/EC).

¹⁵⁶ <http://register.consilium.europa.eu/pdf/en/06/st10/st10117.en06.pdf>

promoting a sustainable economy; valuing our environment; achieving sustainable accessibility; and respecting distinctiveness;

- *Sustainable Development Action Plan* overall aim is to develop an economy that responds to sustainable development opportunities, minimises the demand on the environment and maximises the distribution of benefits'
- *National Tourism Strategy for Wales 'Achieving Our Potential'*¹⁵⁷ sets the strategic framework for tourism;
- *Integrated Coastal Zone Management Strategy for Wales* sets out fundamental principles for the sustainable development and management of the marine environment¹⁵⁸;
- *Coastal Tourism Strategy* sets out how the marine environment can support economic development¹⁵⁹;
- *Wales Energy Strategy*¹⁶⁰;
- *Business and Environment Action Plan*¹⁶¹;
- *Water Resources Strategy for Wales*¹⁶²;
- *National Waste Strategy for Wales 'Wise About Waste'*¹⁶³ and;
- *Designed for Life*¹⁶⁴
- *Economic Renewal: a New Direction* reaffirmed the Assembly Government's support for tackling the challenge of climate change through improving resource productivity and decarbonising energy supply.

TARGETS AND INDICATORS

¹⁵⁷ Welsh Assembly Government's Achieving our Potential:

<http://new.wales.gov.uk/topics/tourism/283366/?lang=en>

¹⁵⁸ Welsh Assembly Government's draft strategy for Wales on Integrated Coastal Zone Management:

http://new.wales.gov.uk/topics/environmentcountryside/env_cons_management/countryside_coastal_access/iczm/?lang=en

¹⁵⁹ Welsh Assembly Government's Welsh Coastal Tourism Strategy:

<http://www.industry.visitwales.co.uk/server.php?shpw=ConWebDoc.3193>

¹⁶⁰ Welsh Assembly Government's Energy Strategy:

<http://new.wales.gov.uk/topics/businessandconomy/help/sectors/energy/?lang=en>

¹⁶¹ Welsh Assembly Government's Business and the Environment Action Plan for Wales:

<http://www.businessenvironment.wales.gov.uk/>

¹⁶² Water resources for the future: a water resources strategy for England and Wales 2001:

http://www.environment-agency.gov.uk/commondata/acrobat/national_report_english.pdf

¹⁶³ Welsh Assembly Government's National Waste Strategy for Wales 'Wise About Waste':

http://new.wales.gov.uk/topics/environmentcountryside/epq/waste_recycling/?lang=en

¹⁶⁴ Welsh Assembly Government's Designed for Life:

<http://new.wales.gov.uk/news/archivepress/healthpress/healthpress2005/708578/?lang=en>

1.345 The following indicators will be used to track the progress of projects and the Programme. Further details can be found at Annex D.

Table 17. Indicators to track progress of projects and the programme – ERDF Priority 4

Indicator	Baseline	Target
Outputs		
Enterprises assisted (90% SMEs)	102,500 enterprises active, 2003 (WAG, 2004, Size Analysis of Welsh Business)	150
Collaborative R&D	-	14
Environmental risk management initiatives	-	15
Initiatives developing the natural and/or historic environment	-	21
Managed access to countryside or coast	-	100 km
Number of Renewable Energy Projects	-	25
Results		
Enterprises operating environmental management systems at a level that requires monitoring and reporting of carbon emissions	-	25%
Renewable energy generated	1,223 GWh all Wales, 2005 (DTI, 2006, Energy Trends)	400 GWh
Energy saved	-	600 GWh
Reduction in greenhouse emissions	18,700kt CO ₂ emissions (end user basis), 2004 (DEFRA, 2006, Experimental Statistics on carbon dioxide emissions at LA and Regional Level)	100 ktC
New or improved products, processes or services launched	-	28
Investment induced	£2,817 million all Wales net capital expenditure, 2004 (ONS, 2006, Annual Business Inquiry)	£145,000,000
Waste reduced, reused or recycled	484,000t all Wales municipal waste recycled or composted, 2005-06 (WAG, 2007, Key Environment Statistics for Wales)	600,000 t
Enterprises created	3,790 VAT registrations, 2005 (DTI Small Business Service)	14
People benefiting from flood protection measures	-	2,000

Visits	8,040,000 visits, annual average 2003-05 (WAG)	750,000
Gross jobs created	777,000 workplace employment, 2005 (WAG, 2006, Workplace Employment by Industry in Wales)	5,000 FTE
Enterprises adopting or improving equality strategies and monitoring systems	-	50%
Impacts		
Increase in turnover	-	-
Net waste recovered	-	-
Net reduction in greenhouse emissions	-	-
Sales of products, processes or services	-	-
Income generated	-	-
Net enterprises created	-	-
Net jobs created	-	-
Increase in company-level GVA	-	-

BENEFICIARIES

1.346 These may include the Private sector, Public sector bodies, Local Authorities, Voluntary sector bodies, Community organisations, Social Enterprises, Social Partners, Non-governmental organisations (NGOS), and Training Organisations.

OPERATIONAL STRATEGY

1.347 This Priority will be delivered in three ways:

Theme 1: Energy

1.348 This theme aims to support the development of clean and renewable energy and to encourage greater energy conservation and efficiency by businesses, public bodies, social enterprises, local communities and householders in West Wales and the Valleys. This will be achieved by:

- supporting clean energy developments and energy infrastructure improvements to increase supply;
- strengthening the energy R&D base and links between businesses and academia including the demonstration of future technologies;

- encouraging the adoption of micro-generation and use of renewables;
- energy conservation and efficiency measures to reduce demand.

Indicative activities

- the development of new sources of clean energy, for example, by developing the potential of clean coal technology and harnessing the natural renewable resources of, wind, wave, tide, liquid biofuels and biomass that are available;
- supporting micro-businesses, SMEs and social enterprises to develop renewable energy and energy efficient technologies and promoting the take-up of micro-generation technologies;
- encouraging businesses to become more energy efficient through the development of energy efficient technologies or the adoption of energy efficient production methods;
- encouraging energy efficiency through supply chain activities, the sharing of best practice through networks and cluster developments and across other sectors;
- the dissemination of best practice on energy efficiency through, for example, publicity campaigns;
- developing projects that support R&D including demonstration models that may serve as examples of innovative projects; and
- developing technical standards, as well as projects that will aid communication and the dissemination of best practice.

1.349 We expect that this theme will absorb just over a third of the resources for this priority.

Theme 2: Tackling Environmental Opportunities and Risks for Sustainable Economic Growth

1.350 This theme aims to promote sustainable economic development by supporting investment in infrastructure that will improve resource productivity and manage environmental risks and constraints. This will be achieved by:

- improving inland and coastal flood defence infrastructure;
- encouraging the efficient use, re-use and recovery of natural resources across all sectors of the economy;
- measures to reduce green house gas emissions; and

- removing sources of contamination.

Indicative activities:

- improving inland and coastal flood defence and associated erosion protection, flood warning and response capabilities, and encouraging greater resilience in built environments and communities that are at risk;
- catchment management initiatives that will help reduce pollution risks and achieve environmental quality standards;
- minimising run-off, diffuse and specific point sources of pollution to water courses, the atmosphere and the ground;
- developing waste and resource management facilities, including measures for social enterprise development in this field;
- enabling businesses to become more resource efficient through adopting environmental management systems and adopting more resource efficient production methods and technology;
- the development of new resource efficient product design technologies;
- promoting resource efficiency, re-use and recycling in businesses to minimise the production and landfill of waste; and
- support for investment in R&D, innovation and knowledge exploitation to develop cost effective solutions in resource efficiency technologies.

1.351 We expect that this theme will absorb around a third of the resources for this priority.

Theme 3: Environment For Growth

1.352 This theme aims to realise the economic potential of the natural environment. This will be achieved by:

- promoting the enhancement and protection of the natural, built and heritage environment; and
- increasing the economic potential of the environment.

Indicative activities:

- enhancing and improving the attractiveness of existing, or the development of new, natural and manmade facilities, including the development of centres of excellence;
- physical infrastructure that will bring economic benefits such as marinas, cycle and walking trails (for recreation rather than for transport), as well as ancillary services and facilities;
- initiatives, such as coastal footpaths, as well as other routes that will provide improved access to the coast and countryside, and that have significant economic benefit;
- developing the potential for sustainable recreation and economic activity linked to the natural environment, for example, around important conservation and Natura 2000 sites.

1.353 We expect that this theme will absorb around a third of the resources for this priority.

ADDED VALUE

1.354 The three themes within this Priority have in common the goal of utilising the opportunities arising from the environment to promote the region's economic development. An option would be to do nothing. However, such is the potential value of the environment as a resource and stimulus for economic growth that access to the Structural Funds to support pro-active interventions is an important area and one where the Programme has the potential to make a real impact on the region. This Priority has, therefore an especially strong resonance with the aims of both the Lisbon and Gothenburg agendas.

1.355 In particular as a result of the activities proposed under Theme 1, the Programme will encourage investments that will give the region a competitive advantage in terms of encouraging directly greater energy efficiency hand in hand with supporting initiatives that will be marketable beyond the region. Under Theme 2, the emphasis is on anticipating and confronting the challenges that natural and economic activities generate. Similarly, the funds designated for this theme and Theme 3 will support higher levels of spend where specific activities and opportunities within the environment itself are identified and thus ensure high standards can be achieved in effective environmental management and so preserve and offer future long-lasting protection to this finite resource.

FLEXIBILITY FACILITY

1.356 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In

order to promote coherent implementation of actions under this Priority, a maximum of 5% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

1.357 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training to promote the take-up and utilisation of innovations in the energy and resource efficiency fields by SMEs so that this contributes to a more successful outcome under the ERDF funded activities;
- training of businesses in energy and resource efficiency.

1.358 Relevant ESF indicators will be used, for example:

Table 18. ESF Indicators for Priority 4

Output	⇒ Result	⇒ Impact
Participants	Participants qualifications	gaining
	Participants further learning	entering

TRANS-NATIONAL AND INTER-REGIONAL CO-OPERATION

1.359 The Managing Authority will encourage in particular Framework Partnerships to bring forward projects which fall within the scope of the provisions for trans-national and inter-regional co-operation. The Region's considerable expertise in the environmental goods and services sector in particular provides considerable scope to engage in projects designed to distil best practice but also to take advantage of novel and innovative ideas and processes used elsewhere. While it is not possible at this stage to determine what activities will emerge, where appropriate ERDF resources will be utilised to support such joint and collaborative projects.

GLOBAL GRANTS

1.360 We do not envisage the use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

ERDF PRIORITY 5: BUILDING SUSTAINABLE COMMUNITIES

OBJECTIVE

1.361 To support integrated approaches to long-term regeneration which will benefit the region's most deprived communities and support the development of vibrant local economies.

RATIONALE

1.362 The regeneration of communities, urban or rural, is central to wider economic, environmental and social development. There is a genuine need to build communities that are economically competitive, socially inclusive and where people want to invest, live and work, now and in the future. A key driver to achieving vibrant, sustainable communities is to create a sense of 'place', where the overall attractiveness of an area can increase the community and business confidence required to help a local economy function effectively and attract people and investment. Physical regeneration and the improvement of the built environment is a major element of this. However, for investment in the physical environment to have a real and lasting impact on deprived areas and the people that live in them, community engagement is critical. Building sustainable communities means enabling local people to shape, change and have ownership of the process, which helps to provide both skills and build confidence, and providing opportunities for local enterprises to flourish. Investment supported by a European initiatives such as the URBAN II and URBAN Community Initiatives in West Wrexham and Townhill, Swansea, and the LEADER+ groups within rural areas have emphasised the importance of effective partnerships, local integration, support networks and capacity building among the local population.

1.363 The region's economic and social challenges affect most parts of West Wales and the Valleys. Net out-migration of young people in some areas has resulted in changing demographic structure of rural communities and localised employment losses in, for example, Pembroke Dock and Milford Haven in the Southwest and Caernarfon, Rhyl and Holyhead in the North, which has left many small towns with high levels of deprivation. The largest relative concentration of urban deprivation, however, is experienced in the upper valleys area of South Wales¹⁶⁵. The general picture here is one of declining populations¹⁶⁶, low skills, and low value-added industry. Economic restructuring, the decline of traditional industries and subsequent low levels of investment have resulted in a severe deterioration of both the built environment, service and amenity provision. Run-down towns and district centres have developed in ad-hoc ways, with out of date facilities, and are

¹⁶⁵ Welsh Index of Multiple Deprivation:

<http://new.wales.gov.uk/topics/statistics/theme/wimd2005/?lang=en>

¹⁶⁶ While West Wales and the Valleys as a whole experiences net in-migration, the south Wales Valleys show net out-migration – resulting from significantly lower levels of in-migration

unable to meet the changing demands of modern living. Economic inactivity levels are high and heavily concentrated among the lowest skilled, with a large number of working age men unavailable for work.

1.364 Assisting deprived communities to develop and sustain economic activity that is linked to wider markets and provides opportunities for all parts of the community is vital to economic growth in West Wales and the Valleys. Research by the Audit Commission indicates that employment has been shown to be the single most effective factor in reducing re-offending by young adult offenders.¹⁶⁷ The presence of areas of deprivation is invariably an inhibiting factor: discouraging investment, perpetuating low skills and generally restricting wider economic growth. The regeneration of communities facing economic and social disadvantage is therefore vital to underpinning wider sustainable economic development.

1.365 Parts of the Convergence region border strongly performing urban areas such as Cardiff, Newport, Swansea and Wrexham/Deeside. While there is a high polarisation between prosperous and deprived areas in this part of the region, often making the gap between rich and poor seem even more stark, there is a need to build on the opportunities presented. Strong performing city regions require the development of complementary centres that provide a range of employment, services and facilities set within a high quality environment that are accessible to all communities. Within the less densely populated areas, it is about having strong performing, accessible centres that have a range of functions. Many will be important regional and local employment and services centres. In some cases they will also have a tourism function or potential. Building sustainable communities within these towns means identifying and building on these local strengths and opportunities. The region also contains areas on the periphery of Europe. These communities are often characterised by smaller markets which can discourage private provision and competition in the provision of services, as well as restricting access to the range of employment and training opportunities¹⁶⁸.

1.366 Building economically competitive, socially inclusive and sustainable communities where people want to invest, live and work, now and in the future, will require a combination of co-ordinated and integrated physical and social actions. Physical regeneration to improve the fabric of an area must be complemented by interventions that involve local people in regeneration activities. This involvement is necessary to revitalise and build the confidence of communities: strengthening social cohesion, developing community networks, and building the capacity of communities to be enterprising; and to ensure that local people are given equality of opportunity to access the benefits of local investments. It is often the co-ordination of solutions in such communities that lies at the heart of this field of intervention. Access to jobs,

¹⁶⁷ Audit Commission report -Youth Justice 2004 -a review of the reformed youth justice system

<http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=ENGLISH%5E17%5ESUBJECT%5E681&ProdID=7C75C6C3-DFAE-472d-A820-262DD49580BF>

¹⁶⁸ See Rural Wales Observatory reports <http://www.walesruralobservatory.org.uk/> and The Wales Index of Multiple Deprivation, as above.

services, markets and facilities is also essential. This priority will also support the development and growth of specific services where gaps have been or can be evidenced, encouraging socially excluded and economically inactive people into employment using approaches that engage with wider, more prosperous markets. In taking these issues forward, it will be important to develop synergies with activity supported elsewhere in the Programme and under ESF priorities.

POLICY CONTEXT

European

1.367 The European Commission's *Bristol Accord* highlights eight characteristics that constitute a sustainable community and that are relevant to this priority. These are: active, inclusive and safe; well run; well connected; well served; environmentally sensitive; thriving; well designed and built; and fair for everyone.

1.368 This priority also reflects the *European Spatial Development Perspective*¹⁶⁹, which presents a policy framework for member states, their regions, local authorities and the European Community. Its broad themes include: dynamic attractive and competitive cities and urbanised areas; indigenous development, diverse and productive rural areas; urban-rural partnership; parity of access to infrastructure and knowledge; and the wise management of the natural and cultural heritage.

1.369 Other relevant EU policies relevant to this priority include:

- The Communication from the Commission to the Council and Parliament of 13 July 2006 - Cohesion Policy and cities - The urban contribution to growth and jobs in the regions; reflects the possibilities for intervention in urban areas by the Structural Funds under the following headings: making cities more attractive; supporting innovation, entrepreneurship and the knowledge economy; the creation of more and better jobs; managing disparities within cities; governance. financing urban renewal.
- The Leipzig Charter on sustainable European cities emphasises the importance of cities in the formulation of future EU policies and the integration of the urban dimension in different policies. It advocates creating and ensuring high-quality public spaces; modernizing infrastructure networks and improving energy efficiency; proactive innovation and educational policies, and supporting deprived neighbourhoods.
- The Territorial Agenda of the EU expands the policy guidelines of the ESPD to six priorities for spatial development measures: strengthening of polycentric development and innovation through networking of city

¹⁶⁹ European Commission's *European Spatial Development Perspective*, 1999: http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/som_en.htm

regions and cities; new forms of partnership and territorial governance between rural and urban areas; promotion of regional clusters of competition and innovation; strengthening and extension of trans-European networks; promotion of trans-European risk management including the impacts of climate change; strengthening of ecological structures and cultural resources as added value for development.

- The Thematic Strategy on the Urban Environment on 11 January (2006) builds on existing European policy initiatives for improving the quality of the urban environment. It sets out new measures to support and facilitate the adoption of integrated approaches to the management of the urban environment by national, regional and local authorities

1.370 In addition this Priority will support the Community Strategic Guidelines 4.1: Making Europe and its regions more attractive places to invest and work.

National

1.371 The strategic agenda of the Welsh Assembly Government in *Wales: A Better Country* sets out a vision for a fairer, more prosperous, healthier and better-educated country. Actions particularly relevant to this priority include social justice that tackles poverty and poor health and provides people and their communities with the means to help themselves and break out of the poverty trap, as well as action in our built environment that enhances pride in the community and promotes local employment.

1.372 The *Wales Spatial Plan* clearly recognises the need to encourage the vitality of communities as attractive places to live and work and to reduce inequalities between communities while retaining their character and distinctiveness. It provides the context for building sustainable communities through focused action to address market failures within urban and rural centres whilst reducing social inequalities and retaining the character and distinctiveness of places. It stresses the need for regeneration to be achieved in a coherent, integrated way, to take the social, economic and environmental needs of communities into equal account. The *Spatial Plan* recognises the importance of integrating this work with local initiatives such as community strategies and ensuring that these reflect the visions for how the wider areas of Wales will develop.

1.373 This priority also addresses important elements of *Wales: A Vibrant Economy* (and latterly *Economic Renewal: a New Direction*). Key actions for future investment within this economic development strategy include making communities attractive to businesses and skilled workers, ensuring the supply of high quality business sites and premises where private sector provision is weak and in taking an inclusive approach to regeneration.

1.374 The Welsh Assembly Government's *Sustainable Development Action Plan 2004–2007* sets out the need for action across the three pillars of

economic, social and environmental development. This priority will contribute to action on social justice to tackle poverty, the consequences of disadvantage, and action to strengthen our cultural identity and ensure equality of opportunity and participation.

1.375 A number of thematic, national strategies and programme of the Welsh Assembly Government are also relevant to this priority. These include, for example:

- *Communities First programme*¹⁷⁰
- *Rural Community Action programme*¹⁷¹
- *Social Enterprise Strategy for Wales*
- *Strategic Action Plan for the Voluntary Sector Scheme*¹⁷²

1.376 Economic Renewal: a New Direction, published in 2010, set out the Assembly Government's new approach to economic development, re-emphasised its support for investment in Regeneration Areas in partnership with local stakeholders. The investment would help to deliver improved quality of life and quality of space for Wales' most deprived communities and stimulate investment and economic activity.

TARGETS AND INDICATORS

1.377 The following indicators will be used to track the progress of projects and the Programme. Further details and baselines can be found at Annex D.

Table 19. Indicators to track progress of projects and the programme – ERDF Priority 5

Indicator	Baseline	Target
Outputs		
Physical improvement schemes	-	30
Land developed	-	15 ha
Organisations assisted	-	200
Organisations financially supported	-	100
Individuals assisted to set up a new social enterprise	-	50
Individuals financially	-	25

¹⁷⁰ Welsh Assembly Government's Communities First Programme:

<http://new.wales.gov.uk/docrepos/40382/sjr/consult/2000/c1st/consultation?lang=en>

¹⁷¹ Welsh Assembly Government's Rural Community Action Programme.

¹⁷² Strategic Action Plan for the Voluntary Sector Scheme:

<http://new.wales.gov.uk/docrepos/40382/sjr/consult/2007/volschemeactionplan/consultation?lang=en>

supported to set up a new social enterprise

Results		
Premises created or refurbished	-	10,000 m ²
Enterprises accommodated	-	50
Jobs accommodated	-	150
Gross jobs created	-	6,200 FTE
Investment induced	-	£3,000,000
People accessing services	-	100,000
Social enterprises created	-	30
Organisations adopting or improving equality monitoring systems	-	50% of firms assisted and financially supported
Organisations adopting and implementing Environmental Action Plans	-	20% of firms assisted and financially supported
Impacts		
Occupancy rates	-	-
Net jobs created	-	-
Net social enterprises created	-	-
Increase in turnover	-	-

BENEFICIARIES

1.378 These may include the private sector, public sector bodies, local authorities, voluntary sector bodies, community organisations, social enterprises, social partners, non-governmental organisations (NGOs), and sector skills councils.

OPERATIONAL STRATEGY

1.379 Activities supported under this priority will be focussed within the most deprived areas and in those communities where the activity is likely to have the most effect. All support provided under this priority must lead to some form of economic outcome to include jobs, sustainable trading business, increased economic activity and community activity that generates and secures wealth and must evidence early and ongoing community involvement. The *Wales Spatial Plan* framework provides the focus for the vast majority of the activity in this priority. The Spatial Plan Area Groups will be responsible for prioritising, through the development of the Sustainable Regeneration Strategic Frameworks for each area, the priorities for interventions which can best benefit the most deprived communities. This priority will be delivered through each of the following two themes, actions in which form part of integrated area programmes:

Theme 1: Physical regeneration (including town centre renewal)

1.380 This theme aims to support the physical regeneration of communities, as part of an integrated regeneration strategy and where it can be demonstrated that focussed intervention will produce sustainable economic, environmental and social benefits. This will be achieved by:

- supporting the integrated regeneration of the most deprived towns and villages by physical improvements to the urban fabric and the wider natural and built heritage. The activity will be carried out within the context of the relevant Spatial Plan strategy and in ways that involve local communities and organisations; and
- developing and delivering effective ways of engaging local communities and developing local networks with the aim of finding and implementing local solutions for regeneration activity.

Indicative activities:

- landscape and access improvements to towns and villages, including redesigning unsafe open landscapes and the rehabilitation of public spaces to bring them into economic use, and development of small-scale sites and premises. This may include carefully targeted local traffic management or the provision of road and parking facilities where these are ancillary to a development or will allow the proper functioning of the town centre, forming part of an integrated regeneration scheme;
- the redevelopment of or refurbishment and bringing back into use of rundown, obsolete, derelict or underutilised buildings for economic and social / community use.

1.381 We expect that this theme will absorb around 72% of the resources for this priority.

Theme 2: Community economic development

1.382 This theme aims to build sustainable and vibrant communities by supporting activities which are part of an integrated regeneration strategy to overcome barriers to development of and participation in local economies. This will be achieved by:

- encouraging access to, providing or improving services for local communities, where gaps in provision can be clearly evidenced, building on the engagement developed under Theme 1; and
- increasing the economic contribution of the 'third sector'¹⁷³;

¹⁷³ The definition based on HM Treasury, DTI, Home Office (Feb 2005) Exploring the Role of the Third Sector in Public Service Reform and www.cabinetoffice.gov.uk/the_third_sector/

Indicative activities:

- support for access to services, new or improved services and facilities where a gap can be demonstrated. These will be identified as part of a local regeneration strategy and where there is a clear market failure, and may include, for example, community-led finance initiatives such as credit unions, financial and debt advisory services, initiatives that tackle barriers to employment including child and other care services and community transport, as well as other services of general economic interest;
- projects that stimulate the development of alternative provision to meet local needs and service gaps and particularly where they help communities move from voluntary activity to business activity;
- support for community-led initiatives that build sustainable, vibrant communities through addressing environmental issues and making places more attractive to live and work. Activities will be funded that do not fall within the remit of Priority 4, for example, creating cleaner, safer and greener public spaces;
- organisational development and out-reach services, which are not available through mainstream business and social enterprise¹⁷⁴ support in Priority 2 to encourage emerging social enterprises and community organisations to begin to address issues of sustainability and how they can generate an economic outcome¹⁷⁵. This might extend to, for example, supporting organisations to tender for services or access Service Level Agreements;
- finance initiatives, where appropriate and within the framework of State Aids, such as micro credit and initiatives to encourage investment in social and community enterprises with the potential for sustainable growth to move organisations away from grant dependency and towards trading activity and sustainability;
- activities that promote a vibrant cultural life, i.e. engaging communities and promoting social inclusion through cultural and heritage activities, for example community festivals and events, community cultural centres, multi-media activity, and community arts projects.

"The Government defines the third sector as non-governmental organisations which are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. It includes voluntary and community organisations, charities, social enterprises, cooperatives and mutuals."

¹⁷⁴ Definition in The Social Enterprise Strategy for Wales,

<http://new.wales.gov.uk/docrepos/40382/sjr/socialenterprise/strategie?lang=en>:

"a social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."

¹⁷⁵ This support will dovetail with that provided for social enterprises in Priority 2 such that as a community business or social enterprise matures, it will migrate to the more mainstream business support or services.

1.383 We expect that this theme will absorb around 28% of the resources for this priority.

ADDED VALUE

1.384 This Priority tackles head on the legacy, both physical and cultural, of the decline of traditional industries which is concentrated in the most deprived communities of the region. It is envisaged that where this Priority will make an impact is in those communities which are starting from a particularly low base and do not have currently the capacity to benefit from the opportunities that will be stimulated from the interventions supported by the other Priorities. The value of this part of the Programme is that it will support and encourage the development of more holistic remedies of the type that the Welsh Assembly Government is developing under national programmes such as the Heads of the Valleys Initiative.

1.385 The coordination of expenditure that will be achieved will result in the overall impact from this Priority being far more valuable than the sum of the component parts. Partnership and local focus will be the hallmarks of this Priority and it is anticipated that the Structural Funds will have a particular role to play in pump-priming initiatives and activities stimulated and managed by the new local Spatial Plan partnerships.

FLEXIBILITY FACILITY

1.386 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In order to promote coherent implementation of actions under this Priority, a maximum of 10% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

1.387 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training for community organisations and individuals to enable them to engage effectively with ERDF funded activities to improve the physical infrastructure of deprived towns and villages;
- training and development or mentoring activities for community organisations to enable them to make the progression into more sustainable activities and trading; and
- training and employment activities that are directly linked and integral to the success of regeneration operations and projects.

1.388 Relevant ESF indicators will be used, for example:

Table 20. ESF Indicators for Priority 5

Output	⇒ Result	⇒ Impact
Participants	Participants qualifications	gaining
	Participants employment	entering
	Participants further learning	entering
Childcare places taken up	⇒	

TRANSNATIONAL AND INTER-REGIONAL CO-OPERATION

1.389 One of the main outcomes of the interventions proposed under this Priority is the development of integrated approaches to long-term regeneration in the Region's most deprived communities and to support the development of vibrant local economies, including improved access to jobs, services, markets and facilities. Within this context there is the opportunity to engage in collaborative projects and gain an understanding of best practice under the trans-national and inter-regional programmes with the use of ERDF funding as appropriate.

GLOBAL GRANTS

1.390 We do not envisage the use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

PRIORITY 6: TECHNICAL ASSISTANCE

OBJECTIVE

1.391 To ensure the efficient and effective management of the Programme.

RATIONALE

1.392 Technical Assistance (TA) is an essential resource for supporting the effective delivery of the Programme. Well-supported and robust administration systems which build on those utilised for previous Programme will be needed to ensure that the new Programme operates smoothly and effectively. TA will be used alongside the resources of the Welsh Assembly Government and its' partners and will focus on supporting key parts of the implementation process.

1.393 Technical assistance will be utilised to support the development of capacity at the Spatial Plan Area level to engage with a range of local partners and stakeholders to develop and support the implementation of relevant Strategic Frameworks.

1.394 Article 46 of Council Regulation (EC) No 1083/2006 of 11 July 2006 allows the use of technical assistance to finance the preparatory, management, monitoring, evaluation, information and control activities of operational programmes together with activities to reinforce the administrative capacity for implementing the funds.

1.395 Building on experience in 2000-2006 the Managing Authority proposes to use TA both to improve the implementation of the programme (strengthening governance and compliance) and enhance its effectiveness in creating jobs and growth (developing our delivery capacity to increase impact). To take this forward, the Managing Authority aims to use TA to support a range of eligible activities undertaken by partner organisations and the Managing Authority itself, as set out in Article 46.

Management

1.396 The following indicative activities will help *improve strategic implementation and strengthen programme support and development*:

Indicative Activities

- enhance and facilitate collaborative projects and approaches and enhance capacity, including support for the development and implementation of Strategic Frameworks;
- strengthen co-ordination and liaison mechanisms with partnerships and promote partnership working;

- advising and supporting projects incorporating activity relating to innovation, trans-national co-operation, sharing of good practice and mainstreaming;
- improving external expertise and technical advice;
- developing and enhancing bespoke IT systems;
- advising and supporting projects on cross-cutting themes integration; and
- training for project managers and support for networks.

Monitoring

1.397 A single Programme Monitoring Committee (PMC) will be established to oversee the effectiveness and quality of the four programmes in Wales. Its work will be enhanced by the improvement in monitoring and management information flowing from the investment in IT identified above. Technical Assistance will be used to support the duties of the PMC, as defined in Articles 65 and 66, and its sub-committees and the costs will be divided between the four Convergence and Regional Competitiveness and Employment Programmes on a proportionate basis. Experts appointed to the PMC based on merit will be remunerated in line with the Welsh Assembly Government's normal practice, with payment from domestic sources of funding; Technical Assistance will not be used for the payment of PMC members.

Indicative Activities

- expenditure on monitoring and sub-committee meetings, including expenses;
- strengthening significantly aspects of WEFO's Programme Management function. This will include a number of technical and expert functions as well as to provide better internal programme management, enhanced management support to the PMC and improved reporting to the European Commission.

Research and Evaluation

1.398 During the 2000-2006 programming period, research and evaluation has played a central role in helping WEFO to manage programme effectively. WEFO set up a specialist Research, Monitoring and Evaluation (RME) team to design, carry out or manage programme-level evaluations.

1.399 Technical Assistance will be used to meet the requirements for evaluation as set out in Articles 47 and 48 of Council Regulation (EC) 1083/2006.

Indicative Activities

- programme level research and evaluation, including research into the Cross Cutting Themes;
- research and evaluation related to Strategic Frameworks;
- provision of evaluation advice and guidance to sponsor organisations;
- research and evaluation dissemination and workshop events; and
- management of research and evaluation exercises, for example through the Evaluation Advisory Group.

1.400 Further detail on these planned activities is available in Chapter 6.

Information and Publicity

1.401 The success of the programme depends to a large degree on a wide understanding among the sponsors and partners of its contents, governing regulations, and aims and objectives. Actions must be taken to ensure that potential sponsors and administrators of the programme are aware of how the programme works and of the funding opportunities available. It is also essential that the benefits and achievements of the programme is widely publicised to highlight the value added by the EU working in partnership with the Welsh Assembly Government and its partners.

Indicative Activities

- dissemination of information, publicity and communication including guidance for partners and sponsors; seminars/workshops;
- WEFO website development and maintenance;
- diversity and accessibility initiatives; and
- operation of a Helpline.

Control Activities and Reinforcing Administrative Capacity

1.402 The Managing Authority has developed and improved its control systems throughout the period of the 2000-06 programmes. It wishes to build

on this to become a structural funds exemplar across the range of its functions.

Indicative Activities:

- enhanced audit arrangements to ensure that these arrangements, including those described under Article 17 of the Implementing Regulations¹⁷⁶, work effectively, improving quality and timelines;
- improving 'irregularity' monitoring and reporting; and
- establishment of a guidance unit within the MA developing and providing continuing and consistent advice to sponsors and partners.

Beneficiaries

1.403 These will include public sector and the voluntary sector.

¹⁷⁶ Commission Regulation (EC) no. 1828/2006 of 8 December 2006 setting out rules for the implementation of the Structural Funds.

CHAPTER 5 CROSS-CUTTING THEMES

INTRODUCTION

1.404 In accordance with Articles 16 and 17 of regulation (EC) No 1083/2006 and Article 6 of regulation (EC) No1081/2006, the cross-cutting themes of equal opportunities and environmental sustainability will be built into the ERDF Convergence programme. The aim is to build on the substantial progress made in integrating these cross cutting themes into the delivery of the European Structural Funds programmes 2000 -2006.

1.405 This chapter sets out the rationale, outlines the current policy context and defines the operational strategy for both themes. The ways in which the themes will be implemented, monitored and evaluated are covered in Chapter 6, along with the lessons learned from the current programme 2000-2006 in Annex Q.

ENVIRONMENTAL SUSTAINABILITY

RATIONALE

1.406 Inclusion of environmental sustainability as a cross-cutting theme will help to ensure that economic development will not adversely impact on the environment. It will also promote the potential of the environment as an economic driver. This is identified in the Integrated Guidelines for Growth and Jobs, particularly in relation to the sustainable use of resources.

1.407 A healthy environment is essential for the quality of life of the people of Wales and for a healthy economy. A high quality, attractive environment will play a key role in attracting and retaining people to live and work in Wales. It underpins Wales' tourist industry with its turnover of £2.3 billion and the 117,000 full time equivalent jobs in Wales associated with the use, management and appreciation of the natural environment¹⁷⁷. The direct and indirect effect of this employment and other spin-off jobs generates goods and services worth £8.8 billion to Wales each year and 9% of Welsh GDP¹⁷⁸. The environment is inextricably linked to the economic health of Wales.

1.408 The key environmental issues affecting the region are identified in *A Living and Working Environment for Wales: The State of the Welsh Environment 2003*¹⁷⁹. They are:

¹⁷⁷ Valuing our environment: http://www.rspb.org.uk/Images/Wales%20valuing%20full_tcm5-31051.pdf

¹⁷⁸ Ibid.

¹⁷⁹ A living and working environment for Wales: The state of the Welsh Environment 2003 <http://www.wales.gov.uk/subienvironment/content/reports/environment2003/summary-pt1-e.pdf>

- Climate change caused largely by the burning of fossil fuels which will increase sea levels and cause an increase in extreme weather events;
- A relatively poor transport infrastructure with a corresponding reliance on private vehicles;
- A high dependency on fossil fuels as an energy source and low level of renewable energy;
- Low rates of reuse and recycling of waste and an inadequate waste management infrastructure;
- Potential deficits in some water supply zones;
- Diffuse pollution from agriculture, acid precipitation and other sources;
- Threats to fisheries from pollution and unsustainable fishing practices;
- A high quality landscape although some areas are blighted by historic industry;
- Extensive areas designated for nature conservation although biodiversity and habitats are under threat from a variety of causes;
- A rich historic environment.

1.409 A fuller picture is provided in the Strategic Environmental Assessment (Annex H).

POLICY CONTEXT

1.410 The National Assembly for Wales' Sustainable Development Scheme sets out how it will promote sustainable development through all its functions. Key actions have been identified relating to climate change, helping business to develop new opportunities related to sustainable development, embedding sustainable development into education and citizenship, working with others to raise awareness of the issues, and gearing organisational structures and processes to deliver sustainable development.

1.411 The Environment Strategy for Wales forms a key element of delivery of the Assembly's sustainable development duty. It sets out how the specific challenges in relation to the environmental 'leg' of sustainable development (the other 'legs' being social and economic) will be met. Building on the Wales Spatial Plan, the Environment Strategy for Wales considers the specific pressures facing different parts of Wales. It sets out the strategic direction for the next 20 years and is supported by an Action Plan aimed at delivering the vision and outcomes set out in the strategy. The five key environmental themes identified in the Action Plan are addressing climate change, sustainable resource use, distinctive biodiversity, landscapes and seascapes, the local environment and environmental hazards. The strategy recognises

the role the Welsh environment plays in improving economic and social conditions, contributing to the Lisbon agenda. Other policies and programmes such as the Convergence Programme will have a role in delivering the priorities set out in the Environment Strategy for Wales.

1.412 A key part of Wales: A Vibrant Economy is to ensure that programmes and policies support sustainable development. The more efficient use of resources is emphasised, together with encouragement of innovation and technological development that is crucial in shaping a sustainable future. More efficient resource use, reducing environmental risks and promotion of sustainable procurement are key elements of Making the Connections, which aims to deliver better public services in Wales.

1.413 Although the majority of the region's population live in the industrial valleys, West Wales and the Valleys is predominantly rural with agriculture being the dominant land use. The successor Rural Development Plan for Wales will have a key role in addressing land management activities consistent with promoting sustainable farming and forestry. It will also support community-based environmental measures as part of the priorities agenda identified by Local Action Groups. Collaboration between Welsh Assembly Government departments is taking place to ensure complementarity between both programmes including their environmental strategies. A collaborative approach will be necessary to promote sustainable land use and to meet the requirements of environmental directives such as the Water Framework Directive.

1.414 The 6th EU Environment Action Programme 2002–2012 sets out the environmental objectives and priorities that are an integral part of the European Community's strategy for sustainable development. Objectives are defined in the programme for tackling climate change, protecting biodiversity, promoting environment and health, the sustainable use of natural resources and the management of waste. The EU action programme is under-pinned by Community legislation and directives aimed at improving the environment.

1.415 In common with many other Member States, Wales faces major challenges in meeting the requirements of some European environmental directives. The Directives relating to reducing land-filling of waste will require major investment and improvement to the waste management infrastructure. The Water Framework Directive will present new challenges for the control of pollution in catchment areas to meet ecological quality standards. Wales has to play its part in contributing to the UK's targets for meeting Directive requirements, and also the reductions in CO₂ emissions relating to the Kyoto agreement.

ENVIRONMENTAL SUSTAINABILITY OBJECTIVES

1.416 There is a clear opportunity for the Convergence Programmes to make a significant contribution to the outcomes identified in Wales and Europe's environmental strategies. This can be achieved within the overall framework of the Lisbon and Gothenburg strategies because of the clear link between a healthy environment, social welfare and a thriving economy.

1.417 The overall environmental sustainability aim and objectives of the Convergence Programmes are set out below. These are in line with the environmental themes and outcomes identified in the Environment Strategy for Wales. They are also consistent with the:

- lessons learned from current Structural Funds programmes 2000–2006 (see Annex Q);
- interventions which will be supported by the programme; and
- objectives defined in the European Community's 6th Environmental Action programme.

1.418 The overall aim is to enhance the environmental assets within West Wales and the Valleys, while promoting the sustainable use of the environment for social and economic benefit. This will be achieved through the following six objectives:

(1) Reducing emissions of greenhouse gases to help limit the extent of climate change and help to adapt to its effects

1.419 CO₂ emissions will be reduced through increasing the efficiency of energy use and promoting energy conservation.

(2) Promoting sustainable transport

1.420 Actions to assist transfer between different forms of transport and reduce private vehicle usage will be encouraged thereby reducing emissions and improving air quality.

(3) Promoting the efficient use of resources

1.421 Actions to encourage efficiency in the use of resources such as energy and water, and improvements in the management of waste.

(4) Promoting the sustainable management of the land, sea and inland waters

1.422 A high level of protection will be provided for designated conservation areas and a formal undertaking is given that no sites protected under Natura 2000 will be harmed by projects funded under the Convergence Programmes. Sustainable management of the land, sea and inland waters, including the habitat and wildlife resources, will be promoted ensuring an appropriate balance between social, economic and environmental factors.

(5) Improving the quality of the local built environment and opportunities to access green space

1.423 High standards of environmental performance will be promoted for new and refurbished premises. Greenfield site development and building on flood plains will be discouraged. Provision of access to green space will be encouraged.

(6) Minimising the risk of pollution and other environmental hazards thereby safeguarding the health of communities and the environment.

1.424 The remediation of contaminated land sites and the prevention of pollution emanating from them will be promoted. Sustainable Urban Drainage systems will be promoted at sites developed for business to reduce the risk of diffuse pollution.

OPERATIONAL STRATEGY

1.425 Each project that will be supported by the programme will have to contribute to the relevant environmental sustainability objectives. The environmental sustainability targets that have been integrated into the Priorities (Chapter 4) will be a strong lever to encourage projects to contribute to the environmental sustainability objectives. Specific activities to support the implementation of the environmental sustainability theme will include::

- specialist advice available at an early stage to ensure that opportunities to contribute to the environmental sustainability objectives are integrated into project plans;
- guidance available to show project sponsors how they can integrate the appropriate activities into project plans. The range of activities that can be integrated to counter negative impacts, protect the environment and achieve environmental benefit is summarised in a matrix (Annex J). There is a strong emphasis on energy and material resource efficiency and development and use of environmental technology which will assist progress towards a low carbon economy;
- support will be provided to project sponsors by the environmental sustainability advisers within WEFO and the competent environmental authorities (Environment Agency and Countryside Council for Wales) will participate within partnerships;
- monitoring of environmental sustainability indicators and targets and the provision of annual reports to the PMC on progress in achieving the environmental sustainability objectives;

EQUAL OPPORTUNITIES AND GENDER EQUALITY FOR WOMEN AND MEN

RATIONALE

1.426 The principles of equal opportunity for all citizens and ensuring that no groups are excluded from society are central to Welsh Assembly Government and UK Government Policy, not least in relation to the labour market. The integration of equal opportunities in the Structural Funds is important not only for legal reasons, but also because overcoming inequalities between men and women contributes to the overall effectiveness of the Structural Fund programmes. A commitment to treating equal opportunities as one of the two cross-cutting themes within Structural Fund programmes in the UK is made in the National Strategic Reference Framework (NSRF) 2006.

1.427 The aim is to promote equal opportunities for all within the context of the opportunities offered by the Convergence programme and to prevent any discrimination on the grounds of gender, disability, ethnic origin, religion or belief, age, sexual orientation and with regard to the bilingual nature of many of the region's communities.

1.428 Promoting equal opportunities for all will contribute to the objectives of the programme by:

- reducing injustice and thus promoting social cohesion with a wide range of benefits including an improved environment for economic development;
- seeking to ensure that all people living in West Wales and the Valleys have the opportunity to use their skills and abilities to best effect; and
- raising the levels of GDP per head and addressing the imbalance in earnings of women and men.

1.429 These are key challenges, and the analyses contained in Chapter 2 and Annex A provide supporting evidence of the relatively disadvantaged positions of women, disabled people, older people and Black and minority ethnic people, clearly evidenced in measures of economic inactivity.

POLICY CONTEXT

1.430 In line with the equality principles enshrined within the Amsterdam Treaty, the National Assembly for Wales has a duty to promote equality of opportunity, as stipulated under Section 120 of the Government of Wales Act 1998:

'The Assembly shall make appropriate arrangements with a view to securing that its functions are exercised with due regard to the principle that there should be equality of opportunity for all people.'

1.431 The commitment to equality of opportunity has also been re-enforced in several Welsh Assembly Government key strategy documents, including *Wales: A Vibrant Economy*. One of its four key priorities is to increase employment supporting job creation and helping individuals to tackle barriers to labour market participation and the world of work.

1.432 *The Wales Spatial Plan* takes forward the Welsh Assembly Government's commitment to tailor its policies to the differing needs of the different parts of Wales, in which equality will be an integral part to delivering a sustainable future.

1.433 The Welsh Assembly Government's Sustainable Development Action Plan 2004–2007, Skills and Employment Action Plan 2005, Making the Connections and strategies such as Extending Entitlement and 14–19 Pathways all highlight the importance of equality in its approach to policy delivery.

1.434 The Welsh Assembly Government is committed to mainstreaming the Welsh language. The second Annual Report on Iaith Pawb (National Action Plan for a Bilingual Wales) and the Welsh Language Scheme¹⁸⁰ highlighted the good progress made during 2004–2005, but recognised that more needs to be done to ensure that mainstreaming the Welsh language occurs among all new projects and initiatives.

¹⁸⁰ The Welsh Language Scheme:

<http://www.wales.gov.uk/subculture/content/standards/language-scheme-e.pdf>

Current and Future Legislative Framework

1.435 There is a range of legislation¹⁸¹ that underpins the equality agenda. There are also several new pieces of legislation in development. The Equality Bill and related legislation will help to place all aspects of equality on a more common footing, and make it easier to mainstream equality as a whole in the business of Government. The Bill sets out plans to establish a new body, in October 2007, called the Commission for Equality and Human Rights (CEHR). The body will have wide-ranging powers to tackle discrimination and prejudice, and to promote equality.

1.436 The CEHR will bring together, in a single body, the work of the Commission for Racial Equality (CRE), the Disability Rights Commission (DRC) and the Equal Opportunities Commission (EOC). It is planned that the CEHR will be established in October 2007. The CEHR will also have responsibility for the new equality areas of age, religion and belief, and sexual orientation, and will work to promote Human Rights.

1.437 The Equality Bill also includes new powers to outlaw discrimination on the grounds of religion and belief in relation to goods and services and creates a duty on public authorities to promote equality of opportunity between men and women and prohibit sex discrimination in the exercise of public functions. The Bill will also facilitate the introduction of rules to prohibit discrimination in relation to goods and services for lesbian, gay and bisexual people.

1.438 An Equalities Review and the Discrimination Law Review are taking place, with a view to bringing forward a Single Equality Bill at the earliest possible opportunity.

EQUAL OPPORTUNITIES OBJECTIVES

1.439 The four cross-cutting equal opportunities objectives for the Convergence programme are set out below. These have been developed using evidence from the Analysis in Chapter 2 and Annex A. A summary of

¹⁸¹ Equality Acts – Race Relations Act 1976/Race Relations (Amendment Act) 2000

http://www.opsi.gov.uk/actsen2000/2000en34.htm#muscat_highlighter_first_match

Welsh Language Act 1993:

http://www.opsi.gov.uk/acts/acts1993/Ukpga_19930038_en_1.htm#tcon

Sex Discrimination(Gender Reassignment) Act 1999:

<http://www.opsi.gov.uk/si/si1999/19991102.htm>

Gender Recognition Act 2004: <http://www.opsi.gov.uk/acts2004/20040007.htm>

Civil Partnership Act 2005: <http://www.opsi.gov.uk/si/si2005/20052114.htm>

Employment Equality (Sexual Orientation) Regulations 2003:

http://www.opsi.gov.uk/si/si2003draft/20036454.htm~muscat_highlighter_first_match

Equal Pay Act 1970: <http://www.eoc.org.uk/PDF/epa.pdf>

Disability Discrimination Act 1985: <http://www.opsi.gov.uk/acts2005/20050013.htm>

Employment Equality (Religion and Belief) regulations 2003:

http://www.opsi.gov.uk/si/si2003/20031660.htm#muscat_highlighter_first_match

The Human Rights Act: <http://www.opsi.gov.uk/acts1998/19980042.htm>

the lessons learned from implementing the cross-cutting themes in the 2000-2006 Programmes is at Annex Q. An analysis has also been carried out of the potential impact of supported activities on the Programme's equal opportunities objectives. This is represented in the form of a Matrix and is available at Annex I.

1.440 There is a clear opportunity for the Convergence programme to make a significant contribution to improving equal opportunities. The framework laid down in the Lisbon and Gothenburg Strategies and in the Treaty of Amsterdam¹⁸² links a thriving economy with social welfare, gender equality, provision for disabled people and tackling barriers to work-life, balance and developing integrated approaches to assisting people who face barriers to participation.

1.441 The Equal Opportunities Objectives for the programme are:

(1) Increase the number of individuals who have multiple disadvantages accessing employment and self employment

1.442 The creation of the right opportunities and support for individuals is crucial if they are to play an active role in the labour market. Positive action is necessary to ensure particular groups are able to take advantage of opportunities for work and training and in many cases a variety of actions may be needed involving a multi agency approach. Those targeted for specific action should have the opportunity to influence the design of proposed activities.

(2) Increasing the numbers of women, BME people and disabled people securing training and employment in higher paid and higher skilled sectors and self-employment

1.443 Sustained economic advances can only be achieved if previously excluded groups secure access to higher level training and ultimately higher level jobs. This can partly be achieved by ensuring equal access to business support measures and entrepreneurial training, access to funds and advice, home reconciliation strategies by employers, equality training for providers and a supportive physical environment that offers ease of access, safety and childcare.

(3) Challenging occupational segregation by increasing the numbers of women and men training or retraining in non-traditional areas, focusing on areas where there are skill shortages.

1.444 Women still face both horizontal and vertical segregation. It is as important to facilitate women's entry into non-traditional sectors, as it is to promote men's presence in sectors traditionally occupied by women. Particular emphasis will be placed on promoting women's entry into science, engineering, construction, ICT and management.

¹⁸² Amsterdam Treaty: <http://europa.eu/scadplus/leg/en/s50000.htm>

(4) Increasing the numbers of employers and training organisations that have equality and diversity strategies, including monitoring systems and methods for feeding in improvements.

1.445 The development of good equality structures and practices will increase the ability to harness and develop the skills and talents of all those able to enhance the economic wealth of the region. For example, employers, training and education providers, and business advisers should develop their own diversity strategies and training that recognises the need to develop flexible work and training delivery methods, child and elder care support, and accessible environments. It will also be important to drive forward the recognition that work-home reconciliation applies equally to men as it does to women. Monitoring of equal opportunities and diversity strategies are crucial, as is a formal mechanism to build in improvements.

OPERATIONAL STRATEGY

1.446 The Managing Authority is committed to ensuring that gender equality and equal opportunities are promoted in the preparation, implementation, monitoring and evaluation of the Operational Programme. Equally, the Managing Authority will strive for a balanced participation of women and men in the management and implementation of the operational programme at local, regional and national level. Gender and equality mainstreaming i.e. ensuring the integration of the gender perspective at all stages will be promoted alongside specific actions for women and other groups. Accessibility for disabled persons shall be considered in defining the operations to be supported by the Funds and in the various stages of implementation.

1.447 Each project supported under the programme will be expected to contribute to the relevant equal opportunities objectives and to adopt the relevant indicators of equality of opportunity set out in Chapter 4 in respect of each Priority. Specific activities to support the implementation of the Equal Opportunities theme will include:

- specialist advice, including equal opportunities assessments, will be available at an early stage to ensure the integration of equal opportunities objectives into project plans;
- specialist advice to projects on equal opportunities mainstreaming issues, provided at early and ongoing stages in the process;
- activity level guidance together with best practice case study examples that will provide specific information on how sponsors can address equal opportunities within their project plans;

- equal opportunities targets integrated into priorities acting as a lever to encourage projects to contribute. See Chapter 4 for specific priority targets;
- regular monitoring of progress, allowing for early intervention if necessary (see Chapter 6);
- update reports to PMC and other stakeholders;
- continued involvement of the external Cross Cutting Themes Group; and
- WEFO encouraging key equality organisations to be involved in supporting an effective network of specialist support.

CHAPTER 6 IMPLEMENTING PROVISIONS

INTRODUCTION

1.448 This chapter sets out the implementation provisions for the West Wales and the Valleys Convergence ERDF Operational Programme. Information is provided in accordance with Council Regulation (EC) No 1083/2006 of 11 July 2006, which lays out the general provisions on the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. Further information is provided in accordance with Regulation (EC) No 1080/2006 on the ERDF, Regulation (EC) No 1081/2006 on the ESF and Regulation (EC) No 1828/2006 setting out the implementation rules.

1.449 The following text does not substitute for the Council Regulations 1083/2006, 1080/2006, 1081/2006 or Commission Regulation 1828/2006 and in instances of uncertainty or conflict, these Council Regulations prevail over the Implementing provisions. The provisions will be supplemented by any decisions, rule and guidance adopted pursuant to Council Regulation (EC) No 1083/2006¹⁸³.

DESIGNATION OF AUTHORITIES

1.450 The programme will be managed in accordance with the principle of sound financial management. Responsibilities for management of the programme by the Welsh Assembly Government give full recognition to this principle and the need for appropriate separation of functions. In particular:

- appropriate separation between the functions of the Managing Authority, Certifying Authority and Audit Authority in accordance with Article 58 of Council Regulation 1083/2006; and
- appropriate separation between the verification functions identified in Article 13 of Commission Regulation 1828/2006 and the Welsh Assembly Government as a beneficiary under the Programme.

1.451 The Welsh European Funding Office (WEFO) is part of the Welsh Assembly Government (WAG) and, as Managing Authority, has overall co-ordination responsibility for management and control issues for the 2007-2013 EU funded programmes. The WEFO Director reports through the Director of Economy and Transport (DE&T) to the Permanent Secretary of WAG. The WEFO Director is responsible for the Managing Authority and Certifying Authority. The Audit Authority reports through an independent line through the Internal Audit Services to the Finance Director of WAG. In order to address any conflict of interest arising from the fact that the WEFO Director reports to

¹⁸³ All Articles referred to relate to Council Regulation (EC) No. 1083/2006 of 11 July 2006 – General Provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, except where otherwise stated. In terms of legal basis, this text does not substitute the above regulation.

the Director of a WAG Department which is also a Structural Funds beneficiary (i.e. DE&T), it has been agreed that the WEFO Director will have an independent reporting line to the Permanent Secretary of WAG on issues where arbitration is necessary. The organogram at Annex K provides an overall picture of the key responsibilities and reporting lines within the Welsh Assembly Government.

Managing Authority

1.452 The Managing Authority for the West Wales and the Valleys ERDF programme will be the Welsh Ministers. It is anticipated that the management functions of the Managing Authority will be exercised by staff of the WEFO under the authority of the relevant Welsh Minister.

1.453 There is a clear separation of functions within WEFO. Organisational charts can be found on the WEFO website¹⁸⁴. Within twelve months of the approval of the Operational Programme a description of the systems, organisation and procedures of the Managing Authority will be produced in accordance with Article 71.

1.454 In accordance with Article 60 and the principles of sound financial management, the Managing Authority will be responsible for:

- ensuring that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and national rules for the whole of their implementation period;
- ensuring that, for the purposes of the selection and approval of operations under Article 60 (a), beneficiaries are informed of the specific conditions concerning the products or services to be delivered under the operation, the financing plan, the time-limit for execution, and the financial and other information to be kept and communicated. It shall satisfy itself that the beneficiary has the capacity to fulfil these conditions before the approval decision is taken;
- carrying out verifications under Article 60 (b), to cover administrative, financial, technical and physical aspects of operations, as appropriate. Verifications shall ensure that the expenditure declared is real, that the products or services have been delivered in accordance with the approval decision, that the applications for reimbursement by the beneficiary are correct and that the operations and expenditure comply with Community and national rules. They shall include procedures to avoid double-financing of expenditure with other Community or national schemes and with other programming periods. Verifications shall include the following procedures:

¹⁸⁴ Link to organisational charts: <http://www.wefo.wales.gov.uk/default.asp?action=page&ID=84>

administrative verifications in respect of each application for reimbursement by beneficiaries;
on-the-spot verifications of individual operations.

- ensuring that on-the-spot verifications are carried out on a sample basis for an Operational Programme. The Managing Authority shall keep records describing and justifying the sampling method and identifying the operations or transactions selected for verification. The Managing Authority shall determine the size of the sample in order to achieve reasonable assurance as to the legality and regularity of the underlying transactions, having regard to the level of risk identified by the Managing Authority for the type of beneficiaries and operations concerned. It shall review the sampling method each year;
- establishing written standards and procedures for the verifications carried out and keeping records for each verification, stating the work performed, the date and the results of the verification, and the measures taken in respect of irregularities detected;
- ensuring adequate separation of functions in accordance with Article 58 (b) for arrangements for the verifications, where the body designated as the Managing Authority is also a beneficiary under the Operational Programme;
- ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the Operational Programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- ensuring that evaluations of the Operational Programme are carried out according to Article 47;
- setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- ensuring audit trails are adequate in line with the Implementing Regulation. For the purposes of Article 60 (f), an audit trail shall be considered adequate where, for the Operational Programme concerned, it complies with the following criteria:

it permits the aggregate amounts certified to the Commission to be reconciled with the detailed accounting records and supporting documents held by the Certifying Authority, Managing Authority and

beneficiaries as regards operations co-financed under the Operational Programme;

it permits verification of payment of the public contribution to the beneficiary;

it permits verification of application of the selection criteria established by the Programme Monitoring Committee for the Operational Programme;

it contains in respect of each operation, as appropriate, the technical specifications and financing plan, documents concerning the grant approval, documents relating to public procurement procedures, progress reports and reports on verifications and audits carried out.

- ensuring that the Certifying Authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- the reporting and monitoring procedure for irregularities and for the recovery of amounts unduly paid in accordance with Article 58 of Regulation (EC) 1083/2006. This will ensure the protection of the European Communities financial interests (Regulations (EC) No.'s 2988/95 and 2185/96);
- guiding the work of the Programme Monitoring Committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals;
- drawing up and, after approval by the Programme Monitoring Committee, submitting to the Commission the annual and final implementation reports;
- ensuring compliance with information and publicity requirements laid down in Article 69; and
- providing the Commission with information to allow it to appraise major projects.

Certifying Authority

1.455 The Certifying Authority for the West Wales and the Valleys Convergence ERDF programme will be the Welsh Ministers. It is anticipated that the management functions of the Certifying Authority will be exercised by staff of the Welsh European Funding Office (WEFO) under the authority of the relevant Welsh Minister.

1.456 There is a clear separation of functions within WEFO. Within WEFO, the functions of the Managing Authority and Certifying Authority will be functionally separate, with a clear division of responsibilities and management

arrangements. An organisational chart is available on the WEFO website¹⁸⁵. Within twelve months of the approval of the Operational Programme a description of the systems, organisation and procedures of the Certifying Authority will be produced in accordance with Article 71.

1.457 In accordance with Article 61 the Certifying Authority will be responsible for:

- drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- certifying that:
 - the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
 - the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the programme and complying with Community and national rules;
- ensuring for the purposes of certification that it has received adequate information from the Managing Authority on the procedures and verifications carried out in relation to expenditure included in statements of expenditure;
- taking account for the purposes of certification of the results of all audits carried out by or under the responsibility of the Audit Authority;
- maintaining accounting records in computerised form of expenditure declared to the Commission;
- keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered shall be repaid to the general budget of the European Union, prior to the closure of the Operational Programme by deducting them from the next statement of expenditure; and
- sending to the Commission a statement by 31 March each year as from 2008, in the format in Annex XI of the Implementing Regulation, identifying for each priority axis of the Operational Programme:
 - the amounts withdrawn from statements of expenditure submitted during the preceding year following cancellation of all or part of the public contribution for an operation;
 - the amounts recovered which have been deducted from these statements of expenditure; and
 - a statement of amounts to be recovered as at 31 December of the preceding year, classified by the year in which recovery orders were issued.

¹⁸⁵ Link to organisational charts: <http://www.wefo.wales.gov.uk/default.asp?action=page&ID=84>

Audit Authority

1.458 The Audit Authority for the West Wales and the Valley Convergence ERDF programme will be the Welsh Ministers. It is anticipated that the management functions of the Audit Authority will be exercised by staff of the Internal Audit Service (IAS) under the authority of the relevant Welsh Minister.

1.459 IAS is functionally independent of WEFO and will be responsible for verifying the effective functioning of the management and control system. The IAS will offer an opinion on the systems of management and control. IAS staff work to internationally accepted audit standards and consist mainly of qualified or part qualified auditors or accountants. Within twelve months of the approval of the Operational Programme a description of the systems, organisation and procedures of the Audit Authority will be produced in accordance with Article 71.

1.460 In accordance with Article 62, the Audit Authority will be responsible for:

- ensuring that audits are carried out to verify the effective functioning of the management and control systems of the Operational Programme;
- ensuring audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- presenting to the Commission within nine months of the approval of the Operational Programme an audit strategy covering: the bodies which will perform the audits referred to in the two bullets above; the methods to be used; the sampling method for audits on operations; and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period;
- by 31 December each year from 2008 to 2015:
 - submitting to the Commission an annual control report setting out the findings of the audits carried out during the previous 12 month period ending on 30 June of the year concerned in accordance with the audit strategy of the operational programme and reporting any shortcomings found in the systems for the management and control of the programme. The first report to be submitted by 31 December 2008 shall cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 shall be included in the final control report supporting the closure declaration;
 - issuing an opinion, on the basis of the controls and audits that have been carried out under the responsibility of the Audit Authority, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are

correct and as a consequence reasonable assurance that the underlying transactions are legal and regular;
submitting, where applicable, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;

- submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which shall be supported by a final control report; and
- ensuring that audit work takes account of internationally accepted standards.

Intermediary Bodies

1.461 The Managing and Certifying Authorities will carry out all tasks as outlined in the above sections and no Intermediary Bodies will be employed as described in Article 59(2).

PARTNERSHIP

1.462 Sustainable and effective solutions to the challenges facing Wales are increasingly reliant on the direct and active participation of all stakeholders at national, regional and local levels. The Managing Authority is committed to working through good-quality partnerships and networks to rally key stakeholders behind the Lisbon reform agenda so that resources are genuinely focused on growth and jobs.

1.463 In accordance with Article 11, the Managing Authority will work in close co-operation with both the Commission and representative partners at national, regional and local level, including representatives in the economic, social and environmental spheres. This partnership engagement will cover the preparation, implementation, monitoring and evaluation of the Operational Programme.

(a) Preparation of Operational Programme

1.464 The Wales chapter of the National Strategic Reference Framework (NSRF) and this Operational Programme have been developed in partnership with key stakeholders across all relevant sectors including social partners, equality bodies, higher and further education sector, environment agencies, local authorities, the voluntary and community sector, public and private sectors. The main representative partnership input has been provided through the Post-2006 External Stakeholders Group. This is a broad-based partnership forum which brings together representatives of all the key stakeholders. Expert input has also been provided through five workstream groups comprising partners from a wide range of organisations in the public, private and voluntary sectors. In particular the Operational Programme Group advised on the preparation of the programme and contributed to the drafting;

the Monitoring and Evaluation workstream advised on the development of the monitoring and evaluation systems, including programme and priority level indicators, and provided oversight of the ex-ante evaluation process; and the Programme Management Workstream supported the development of the implementation strategy, including the arrangements for Strategic Frameworks. In line with the principle of transparency, notes of the meetings of the Post 2006 External Stakeholders Group and the various workstream groups have been published on the WEFO web site¹⁸⁶.

1.465 A public consultation on the Convergence programme took place over the period July to October 2006, supported by regional events. A full list of consultees is given at Annex L. A short summary of the consultation responses is provided as part of the Strategy Chapter (Chapter 2) and a more detailed analysis prepared by CRG Research Ltd has been published, alongside individual consultation responses, on the WEFO web site.

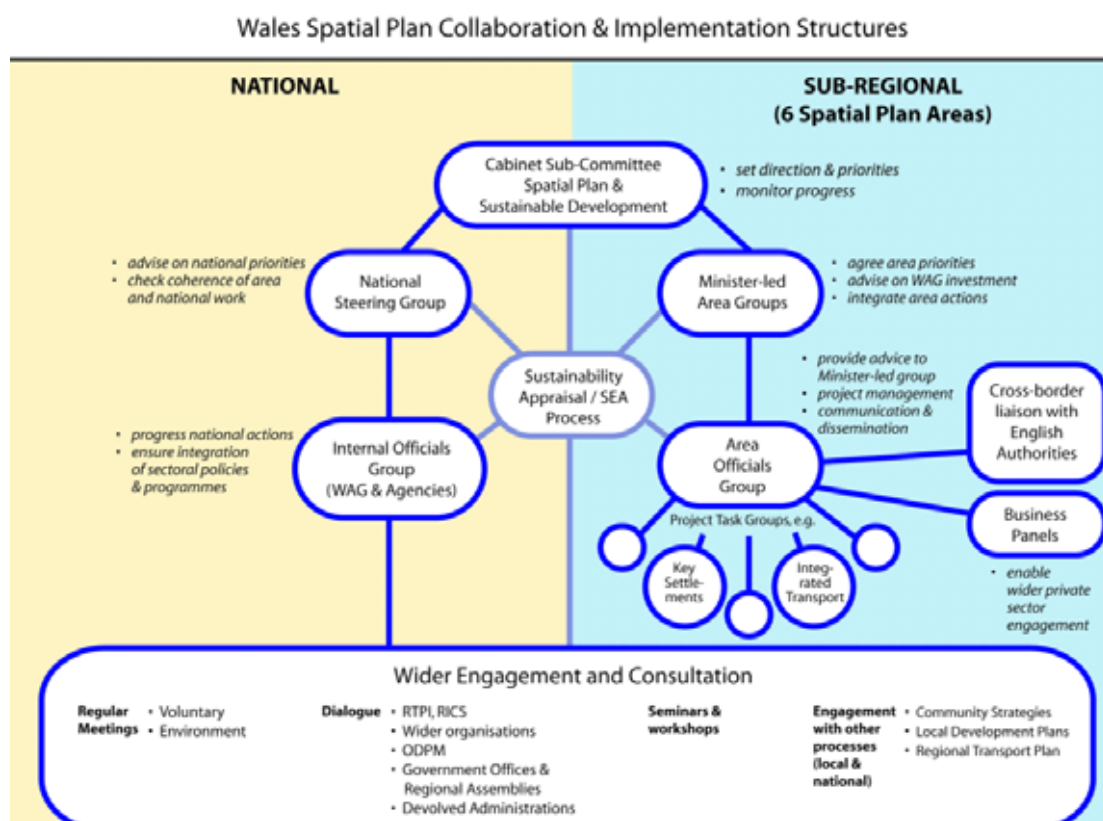
(b) Implementation of Operational Programme

1.466 The active involvement of partners in the implementation of the Operational Programme is a cornerstone of the overall implementation strategy. The Programme Monitoring Committee (see paragraphs 6.24–6.29 and 6.32– 6.35) will work with the Managing Authority to ensure the effectiveness and quality of the implementation of the Operational Programme. In accordance with Article 11, the Programme Monitoring Committee will be appointed by the Managing Authority and will include representative and expert partners at national, regional and local level in the economic, social, environmental and other spheres.

1.467 The detailed planning of operations for this Programme will be focused by means of a number of “Strategic Frameworks” (see paragraphs 6.36 to 6.49). These frameworks are operational strategies for delivering on the various themes within the Operational Programme. They will be used, along with any other selection and prioritisation criteria established by the Programme Monitoring Committee in line with Article 65(a), to guide the Managing Authority in the selection of projects. All the frameworks will cover the spatial aspects of delivery and a number of them will be spatially-driven, linked to the *Wales Spatial Plan* areas and developed through partnership at a local and sub-regional level. These groups are chaired by a Minister of the Welsh Assembly Government and include leaders of local authorities, representatives of business, trades unions, equality organisations, the voluntary sector, environmental organisations, Higher Education and Job Centre Plus.

¹⁸⁶ At www.wefo.wales.gov.uk

Figure 17. Wales Spatial Plan Collaboration and Implementation Structures



1.468 The thematically driven Strategic Frameworks will be developed and implemented through active engagement with partnerships relevant to the themes that they cover. Many of these will be existing, well-established partnerships (e.g. the Wales Waste Forum, Regional Transport Partnerships, the Wales Employment Advisory Panel, Future Skills Wales Steering Group, Skills for Business Network etc). For some frameworks there will be a need to establish new bespoke arrangements. The arrangements for partnership engagement will provide an open, efficient and effective means of gathering stakeholder views on and input into the development and future refinement of Strategic Frameworks. These arrangements will also facilitate genuine constructive challenge.

1.469 Strategic Frameworks will be posted in draft form on the WEFO website for comment prior to their agreement, allowing for the widest possible engagement of individuals and organisations at all levels. The website will also provide a space for prospective project sponsors to publicise brief details of their project ideas with a view to encouraging partnership and collaboration at a project level.

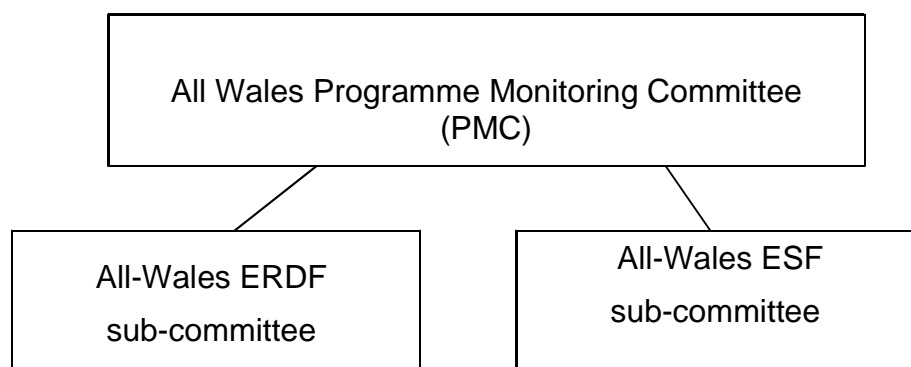
1.470 The Managing Authority will ensure that each Strategic Framework is developed and kept under review in partnership with relevant stakeholders. The partnership arrangements for each framework will require the agreement of the Managing Authority and will be described clearly within the framework documents for the information of all stakeholders.

(c) Monitoring of the Operational Programme

1.471 In accordance with the provisions of Article 63, a single Programme Monitoring Committee (PMC) will be established for the two Convergence (ERDF and ESF) and the two Regional Competitiveness (ERDF and ESF) programmes in Wales. This will help to maximise the synergies between the respective programmes and promote complementary action across programme boundaries. The single PMC will support the effective transfer of best practice and lessons learned and facilitate a coherent all-Wales approach to issues such as information and publicity, research and evaluation, cross-cutting themes, territorial co-operation and the promotion of innovation. In looking for such integration the Managing Authority recognises that there will be a need for robust arrangements to be in place to ensure that each of the 4 Programmes is effectively monitored. It is planned to establish two standing sub-committees responsible for monitoring and advising the main PMC on the performance of each of the ERDF and the ESF programme respectively. The detailed tasks these sub-committees will perform, along with their membership, will be for the full PMC itself to determine and elaborate within the rules of procedure.

1.472 The PMC, at its first meeting, will be invited to discuss and agree the membership and functions of the two standing committees and decide the level at which its responsibilities will be discharged by them in accordance with the European Regulations. During the programming period 2007–2013, the PMC may decide to establish other sub-groups, either of a task and finish variety or on a more permanent basis. Where necessary the Committee may propose to the Managing Authority that other experts or stakeholder groups may be appointed to advise such sub-committees. The proposed model is given in Figure 18.

Figure 18. Proposed structure for PMC and standing sub-committees



1.473 The PMC shall comprise 24 Members plus a Chair. The Chairs of the PMC and its standing committees will be representatives of the Managing Authority. The European Commission, staff of WEFO and, where appropriate, the EIB and EIF shall participate in an advisory capacity in the PMC and its committees.

1.474 In line with the provisions of Article 11, the majority of members will be drawn from principal regional partners and statutory bodies as follows:

Table 21. Representative Membership of PMC by Sector Organisation

Sector Organisation	Members
Local Government (1 West Wales & the Valleys; 1 East Wales)	2
Welsh Assembly Government: Enterprise, Innovation and Networks	1
Welsh Assembly Government: Education and Lifelong Learning	1
Welsh Assembly Government: Environment, Planning and Countryside	1
Higher Education	1
Further Education	1
Jobcentre Plus	1
Trade Unions	1
Private Sector – Business	1
Voluntary Sector	1
Social Economy	1
Environment Agency/Countryside Council for Wales	1
Commission for Human Rights and Equality	1
Total	14

1.475 The balance of the PMC will be made up of 10 experts selected by the Welsh Assembly Government following an open competition subject to independent scrutiny. These experts will bring a range of abilities, experiences and qualifications to the functions of the PMC which will complement the qualities of the partnership representatives. These experts will be remunerated in line with the Welsh Assembly Government's normal practice, with payment from domestic sources of funding and not from the Structural Funds.

1.476 We are proposing a minimum target of 40% representation of men and 40% women on the All-Wales PMC, with flexibility over the remaining 20%. We are looking to partner organisations to support this target. Appropriate procedures will also be put in place to ensure complementarity between the ESF and ERDF programmes and the RDP and EFF.

(d) Evaluation of the Operational Programme

1.477 The Managing Authority will build upon the good practice of the 2000-06 Programme by setting up an Evaluation Advisory Group (EAG). The EAG will be chaired by a senior Managing Authority official. Membership will consist of experts drawn from partner organisations including the European Commission and other stakeholders. The group will also include technical specialists from the Office of the Chief Social Researcher, Economic Advice Division and the Statistical Directorate within the Welsh Assembly Government.

1.478 EAG will advise and assist in designing the Monitoring and Evaluation Plan; agreeing research designs; quality controlling final reports; and ensuring that findings are disseminated widely. EAG will have responsibility for engaging technical specialists when required to assist with their work.

DUTIES OF THE PROGRAMME MONITORING COMMITTEE

1.479 The Managing Authority will provide the secretariat function for the PMC and its meetings. The PMC will draw up its own rules of procedure and agree them with the Managing Authority. The PMC's duties are defined in Articles 65 and 66 of Regulation (EC) 1083/2006.

1.480 At its first meeting, the PMC shall approve detailed provision for the proper and efficient discharge of the duties assigned to it, including the frequency of its meetings (with a minimum requirement of two meetings per year) and the membership and functions of the proposed two standing sub-committees. These provisions shall include particularly:

- the criteria for selecting the operations to be financed and any revision of those criteria in accordance with programming needs; and
- arrangements for reviewing progress towards achieving the specific objectives and targets of the Operational Programme on the basis of documents submitted by the Managing Authority.

1.481 The PMC and its subcommittees as appropriate shall satisfy itself as to the effectiveness and quality of the implementation of the Operational Programme. To this end, and in addition to the above functions, it shall:

- monitor progress towards achieving the physical and financial indicators and targets set for the Operational Programme and each Priority axis and examine the evaluations referred to in Article 48(3).
- consider and approve the annual and final implementation reports on implementation referred to in Article 67 before these reports are submitted to the European Commission;
- be informed of the annual control reports and of any comments the Commission may make after examining these reports or relating to these reports;
- propose to the Managing Authority any revision or examination of the Operational Programme aimed at improving their management, including financial management;
- consider and approve any proposals to amend the contents of the approved Operational Programme.

1.482 To assist the PMC and subcommittees where appropriate in discharging its statutory responsibilities as identified above the Managing Authority will also ensure that the Committee:

- receives information on commitments, expenditure and outputs (planned and realised) for each theme within the individual Priorities, at least on an annual basis;
- agrees the use of Strategic Frameworks by the Managing Authority as part of the criteria for the selection of operations. Advises on the alignment of individual Strategic Frameworks with the objectives and targets in the Operational Programme, including any subsequent modifications, prior to their approval by the Managing Authority;
- considers the Monitoring and Evaluation Plan of the Managing Authority, and any amendments to the Monitoring and Evaluation Plan, as referred to in Article 48(1);
- is consulted on the Innovative Actions Strategy; and
- receives annual reports on the progress of the Cross-Cutting Themes.

IMPLEMENTATION AND DELIVERY ARRANGEMENTS

Planning

1.483 Programme evaluations have identified that overall impact can be improved by ensuring more 'joined up' approaches to project activity and stronger alignment with headline programme objectives. They have also suggested the need for a stronger emphasis on sub-regional collaboration and a simplification of programme structures and implementation arrangements. Furthermore, in the consultation on the Post 2006 programme, there was widespread agreement on the need to adopt a more strategic approach in future to the use of Structural funds.

1.484 The Managing Authority will promote more strategic approaches to implementation, including through the introduction of Strategic Frameworks. These frameworks will be Operational Strategies that take as their starting point the Priorities and themes within the Operational Programme. They will help to ensure the focus and concentration of effort needed to optimise use of the structural funds; they will encourage partnership and collaboration and will help establish operational links and co-ordination between projects.

1.485 A Strategic Framework is defined as

A plan to achieve a particular strategic purpose by means of project interventions that are strategically linked.

1.486 The Frameworks will be planning documents and not financial instruments. Projects will be the “currency” within the Operational Programme and responsibility for project selection, prioritisation and approval will rest with the Managing Authority. Frameworks will be drawn up in accordance with guidance issued by the Managing Authority and will be used by them in the process of selecting and prioritising projects.

1.487 The Frameworks will provide a clear strategic overview and guidance on the fields of Intervention and the kinds of projects and delivery arrangements that will best deliver on the relevant Theme and Priority. They will identify important strategic connections with other Frameworks and, where there is potential for perceived “overlap”, they will explain clearly, for the benefit of prospective sponsors, which kinds of project should be covered by which Framework. They will also identify the scope within their field for Innovative Actions and for Transnational Co-operation (see paragraph 6.50). An indicative list of Strategic Frameworks for the Programme is provided at Annex M.

1.488 The development of Strategic Frameworks will be co-ordinated by Welsh Assembly Government Departments and the Wales Spatial Plan (WSP) Area Groups. They will ensure a good alignment between the EU policies for Growth and Jobs and relevant National policies and strategies including the Wales Spatial Plan.

1.489 Dedicated Spatial European Teams (SETs) will be established to support the work of the Spatial Plan Area Groups in co-ordinating the spatially-driven Strategic Frameworks. They will also assist thematic Strategic Framework co-ordinators with partnership engagement at a local and sub-regional level. Strategic Framework co-ordinators will also have a role to play, alongside Spatial European Teams and others involved in supporting prospective sponsors, in discussing early ideas with potential project applicants and giving them “without prejudice” views on their likely fit within a framework. The views of Framework Co-ordinators, along with other experts, will be sought by the Managing Authority whenever needed during the course of considering project submissions; but the Managing Authority will make decisions on projects independently on the basis of published Framework content and other PMC-approved selection and prioritisation criteria.

1.490 In agreeing the Strategic Frameworks, the Managing Authority will ensure that the partnership arrangements set out within them provide for a substantial level of “challenge” from the partners and stakeholders engaging in the framework development. As the programme progresses, the results of monitoring and evaluation may highlight the need for adjustment to the framework strategies; therefore it will be necessary to periodically review, adjust and refine their content in consultation with the relevant partnerships. Framework Co-ordinators will remain responsible for co-ordinating this ongoing maintenance of the Frameworks throughout the life of the programme period, which they will continue to do with the active engagement of their partnerships. The responsibilities of Framework Co-ordinators are set out at Annex N.

1.491 Once a Framework is deemed by the Co-ordinator and by the Managing Authority as fit for use, it will be presented to the PMC. Subject to the PMC's advice on its alignment with the Operational Programme and their agreement that it is fit for use as one of the project selection and prioritisation criteria, the Framework will then be agreed by the Managing Authority. Project fit with the Framework will be one of the project selection and prioritisation criteria; other criteria will be approved by the PMC along with the general eligibility criteria to apply to all projects. Figure 19 and Figure 20 illustrate the role of the PMC in this respect and the way in which all criteria will be applied in the selection and prioritisation of projects for approval of grant.

Figure 19. Setting selection and prioritisation criteria

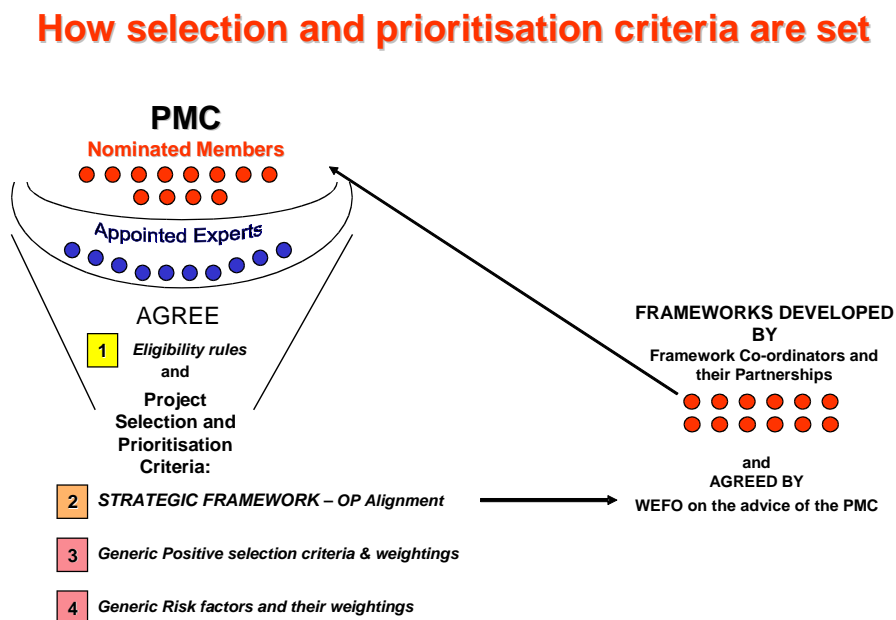
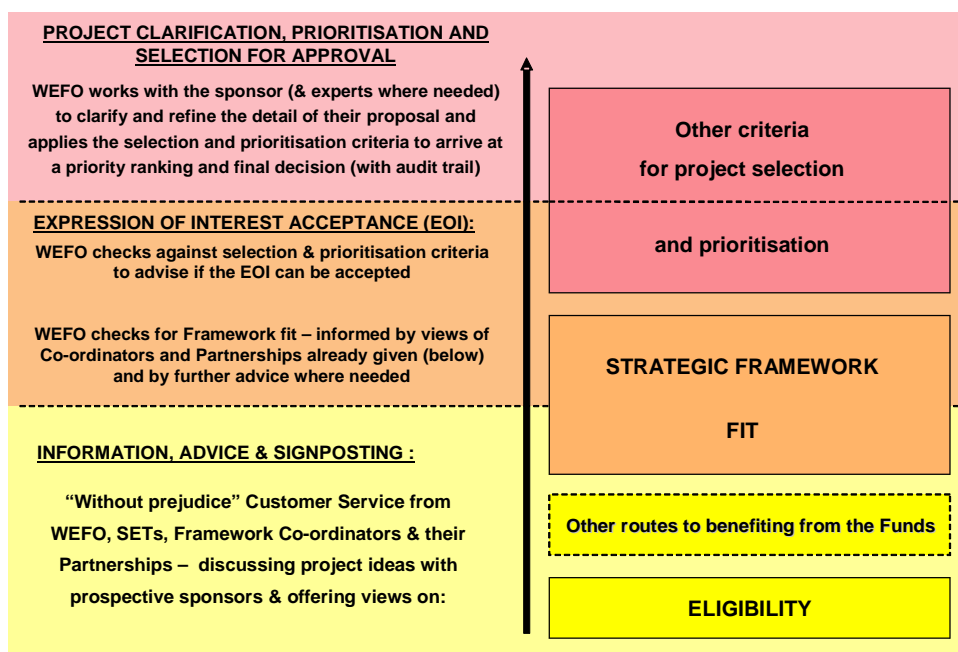


Figure 20. Applying selection and prioritisation criteria

How selection and prioritisation criteria are applied



1.492 Once agreed by the Managing Authority, a Framework will be posted on the website, as “AGREED”, for the information and guidance of prospective sponsors and other stakeholders. It will also be used by the Managing Authority Project Development Officers and Priority Controllers in their consideration of Expression of Interest (EOI) requests and in the subsequent selection and prioritisation of projects.

Project handling, selection and prioritisation arrangements

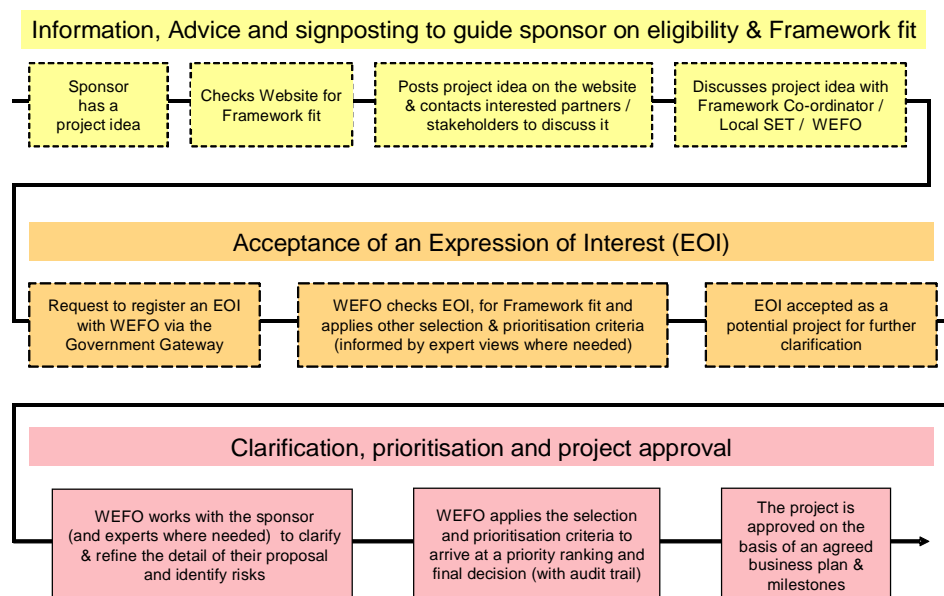
1.493 The Managing Authority will ensure that organisations interested in benefiting from funding through the Operational Programme understand the nature of the programme and the route they need to follow in order to secure a grant. The Managing Authority will provide interactive website facilities to enhance the engagement with stakeholders and prospective sponsors and to enable sponsors to submit their project proposals and their claims electronically.

1.494 The Managing Authority will maintain a Helpline to handle enquiries from prospective sponsors and other stakeholders and to provide initial information, advice and signposting. This will be an important enhancement to previous arrangements and will ensure a good quality of customer service for prospective sponsors and other stakeholders.

1.495 The arrangements for the delivery of the Operational Programme will be straightforward. Strategic Frameworks will provide Operational Strategies to guide the nature of interventions, which will be delivered through projects. The Managing Authority will approve those projects directly and does not envisage the use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006.

1.496 In addition to the fundamental criteria of eligibility under the rules and the criterion of Framework fit, criteria for the selection and prioritisation of projects, covering important aspects of both benefit and risk, will be approved by the PMC. Figure 21 illustrates the route that a prospective project sponsor will take to secure a Structural Fund grant:

Figure 21. Route for securing Structural Funds grant



1.497 Innovative action projects and projects proposing trans-national or inter-regional action will be specifically identified by the Managing Authority at the stage of submission of an Expression of Interest and sponsors will be given specific advice and guidance in relation to their implementation, evaluation and dissemination. The Managing Authority will separately monitor these projects and will report on them to the Programme Monitoring Committee. National eligibility rules will apply to all such projects. In the case of all approved projects, the sponsor will be responsible for delivering and spending against profile to achieve the projected outputs and results.

1.498 If a project of any kind is found at any time to be in breach of any of the following conditions then that project sponsor will be liable to have its funds clawed back by the Managing Authority:

- EU Regulations;
- the National rules set to govern the delivery of the Operational Programme;
- State Aid rules; or

- the specific terms and conditions applied to the project by the Managing Authority in their offer of grant letter.

IMPLEMENTATION OF THE CROSS-CUTTING THEMES

1.499 The Cross-Cutting Themes (CCT) form an integral part of management of the Operational Programme and projects. Each Priority within the programme will use the CCT objectives within the context of the activities to be funded. Activity level guidance will be prepared together with best practice case study examples that will provide specific information at an early stage to show project sponsors how they can address Environmental Sustainability and Equal Opportunities within their project plans. Specialist advisers in Environmental Sustainability and Equal Opportunities work within WEFO and will provide support to framework coordinators, project sponsors and partnerships. Specialist advice will also be available through the involvement of key organisations in the region including the Environment Agency, the Countryside Council for Wales and the Commission for Equality and Human Rights. A key objective will be to provide the specialist input at an early stage in the process to maximise take up of opportunities to promote the themes.

1.500 CCT targets set at the level of the activities to be supported by the Convergence Programme provide an important driver for encouraging projects to address the Programme's environmental sustainability and equal opportunities objectives. The horizontal integration of both themes will be viewed as an eligible activity for funding support so that it can offset any potential negative impacts (for example negative environmental externalities) or to maximise the opportunities for integration (for example in a more diverse workforce). Matrices have been prepared that show the detailed activities that will be supported under the Priorities and Themes to achieve horizontal integration (see Annexes I and J).

PAYMENT BODIES

Payments from the Commission

1.501 The National Assembly for Wales will receive Structural Funds payments from the European Commission. Payments will be made to the nominated bank account which will be controlled by Finance Division, Welsh Assembly Government. WEFO will liaise with Finance Division to ensure Structural Funds payments from the European Commission are correctly accounted for and are separately identifiable.

1.502 Shortly after the elections for the National Assembly for Wales in May 2007 the functions of the National Assembly for Wales will be transferred to

the Welsh Ministers of the National Assembly for Wales (collectively known as the Welsh Assembly Government). At this point the Finance Division of the Welsh Assembly Government, acting on behalf of the Welsh Ministers will receive payments from the Commission.

Payments to Beneficiaries

1.503 The Managing Authority will pay the beneficiaries (projects) on receipt of valid claims in accordance with Article 80. WEFO will be responsible for making payments to beneficiaries. The WEFO Payments' Branch will work in partnership with Project Development Officers in the Programme Management Division on project monitoring issues but will be wholly responsible for authorising payments, thereby ensuring a separation of duties between those that approve and those that pay. The branch will also be separate from the Certifying Authority which will be responsible for making expenditure declarations to the EC. A structure chart for WEFO is available on the WEFO website¹⁸⁷.

1.504 Beneficiaries will be expected to submit claims at regular intervals to report actual expenditure and project activity. Claim intervals will be either monthly or quarterly, to enable close monitoring of projects against approved activity. The claims' process will allow sponsors to report progress on the project and to provide revised spending plans which will be essential for monitoring at both project and programme level for N+2 purposes.

1.505 Applicants will generally claim on-line through WEFO's Programme and Project Information Management System (PPIMS) database which it is planned will be introduced through 2007 to 2008. This will provide automatic claim invitation and validation prior to submission. This will ensure all fields in the claim form are fully completed and undertake arithmetic calculations. It will also identify and seek explanations behind any breaches of tolerance where the project is not delivering as approved. This will not only improve the quality of claims submitted, resulting in less having to be returned, but will ensure close project monitoring alerting both WEFO and beneficiaries to issues as soon as they arise. Pre-printed paper claim forms will be available for those sponsors who do not have access to on-line functionality. These will undergo the same validation checks at the point of input into PPIMS by WEFO staff.

1.506 All projects will be subject to grant retention (normally 10%) subject to satisfactory submission of a final claim and external audit certificate.

ELIGIBILITY OF EXPENDITURE

1.507 The Managing Authority for the Operational Programme will draw up rules on the eligibility of expenditure in accordance with Article 56(4). These rules will take account of the provisions and exceptions as set out in the ERDF Regulation (EC) 1080/2006, the General Regulation (EC) 1083/2006,

¹⁸⁷ www.wefo.wales.gov.uk

the Implementing Regulation (EC) 1828/2006, the ESF Regulation (EC) 1081/2006, existing (and updated) guidance and operational manuals issued by the Managing Authority.

1.508 The Managing Authority will provide the Commission with information on the national rules for eligibility established and applicable to the Operational Programme at the latest by the date of the submission of the description of the management and control systems and the report on the compliance of the systems in accordance with Article 71 of Regulation (EC) 1083/2006.

INTEREST GENERATED

1.509 Any interest generated by payments from this Operational Programme to funds as defined in Article 44 shall be used in accordance with the provisions of Article 78(7). For example, interest generated from payments to financial engineering instruments will be reinvested for the benefit of small and medium sized enterprises.

1.510 In accordance with Article 83, any interest generated by the pre-financing shall be posted to the Operational Programme concerned, being regarded as a resource for the Member State in the form of a national public contribution, and shall be declared to the Commission at the time of the final closure of the Operational Programme.

AUDIT ARRANGEMENTS

1.511 Project sponsors are required to provide independently verified audit certificates as part of their own project management and in support of payment requests to WEFO. These certificates will need to be provided every 12 months during the life of a project and also at the end of the project. These audits will be undertaken by a suitably qualified auditor external to the organisation claiming the grant.

1.512 Each audit certificate will cover the period from the last audit (or from the start of the project), to the date of the last claim.

1.513 All audit issues will be followed up and decisions fully documented. The presumption will be that any amounts subjected to audit qualification will not be paid until the issue is resolved. If audit issues are raised WEFO will seek assurances from sponsors and auditors for future claims that any amounts disallowed have also been excluded. All audit issues will be recorded on PPIMS to allow common issues to be identified and followed up.

1.514 WEFO is looking to directly commission an external firm(s) of auditors to undertake project audits for the 2007–2013 Programme. This will ensure greater control and assurance and will provide for a consistent approach across all projects and funds.

USE OF THE EURO

1.515 In accordance with Article 81, certified statements of expenditure, applications for payment and expenditure in the annual and final reports will be denominated in Euro. The sterling amounts will be converted to Euro using the monthly accounting exchange rate of the Commission in the month during which the expenditure was registered in the accounts of the certifying authority.

STATE AIDS

1.516 Any public support under this programme must comply with the procedural and material EC State Aid rules applicable at the point of time when the public support is granted. It is the Member State, and in particular the Managing and Certifying Authority who are responsible for the compliance with State Aid rules of all Structural Funds operations within the programme.

1.517 In planning for the new programme, early consideration will be given to ensuring that any aid awarded has the necessary Commission approval, either by ensuring that it complies fully with an existing approved scheme or a block exemption or by notifying the aid separately. In developing Strategic Frameworks, lead organisations will be required to identify the relevant State Aid cover for activities planned, ensuring that there is a thorough assessment of State Aid issues at an early stage of development, reducing the risk of problems during implementation.

1.518 WEFO, as the Managing and Certifying Authority, will work closely with the Welsh Assembly Government's State Aid Unit and with lead organisations to address State Aid issues identified in relation to the Strategic Frameworks, ensuring that the appropriate level of cover is in place for the various activities proposed under the Strategic Framework. This, in turn, will provide WEFO with robust assurance of State Aid compliance. Building on the experience gained during the existing programme, WEFO will ensure that appropriate systems and procedures are established for dealing with State Aid matters. These will include:

- provision of clear guidance to partners, applicants and staff;
- specific support and guidance during the development stages of projects under a Strategic Framework;
- robust methodology for assessing State Aid in relation to single projects and commissioned proposals; and
- procedures for ensuring State Aid compliance at reporting and monitoring stages.

1.519 In recognition of the ongoing reform of the State Aid rules, WEFO will liaise closely with the Welsh Assembly Government's State Aid Unit to ensure that any changes are built into the practical delivery of the Structural Funds

Operational Programme, while ensuring that the full scope of the rules are applied in support of the key priorities identified.

PROCEDURE FOR FINANCIAL FLOWS

1.520 The Certifying Authority will make all payment claims to the European Commission. Interim and final claims will be derived from declarations of expenditure submitted by beneficiaries. A diagram illustrating these financial flows and the associated financial controls is at Annex O.

1.521 The Managing Authority will maintain systems to identify all receipts from the Commission and individual payments to beneficiaries. Procedures will be in place to ensure that EU regulations on prompt payments are complied with. The Managing Authority will be responsible for ensuring that the payments systems used have robust financial controls. Standards of probity and propriety consistent with those used for UK Government expenditure will be applied to the management of Community funds. As required in Article 37(1)(g)(iv), transparency in the mobilisation and circulation of financial flows will be maintained through defining the procedures used. An outline of how Community funds will flow is as follows:

- The Managing Authority input to WEFO's grants administration system, Programme and Projects Information System (PPIMS), the interim claim expenditure declared by the beneficiaries.
- The Certifying Authority submits requests for payments to the Commission at programme level.
- The Commission makes payments to the Managing Authority's account.
- The Managing Authority certifies and authorises payments to beneficiaries and carries out any recovery action necessary.
- The Managing Authority makes payments to beneficiaries through its BACS account.
- Where the European Commission requests a refund, the Managing Authority will make the necessary payments.

1.522 The Managing Authority will bear the responsibility for investigating irregularities and making financial corrections as required. Within 2 months following the end of each quarter, the Managing Authority will inform the Commission of any irregularities which have been subject of a primary administrative or judicial finding and with references to irregularities previously reported any significant changes.

PROGRAMME AND PROJECT INFORMATION MANAGEMENT SYSTEM (PPIMS)

1.523 The WEFO Grants project is developing new ways of working via a web-enabled integrated system to fully comply with Commission compliance requirements and to better enable beneficiaries to conduct their business with WEFO.

1.524 The web-enabled system being delivered is called PPIMS (Programme and Project Information Management System). The online functionality is being delivered via the Government Gateway, used across government to provide online services.

1.525 The system offers simple secure access to key documents and enables information to be shared across all WEFO offices in an efficient cost-effective way. Within PPIMS all data will be held in one place so access to information on each project will be more readily available than via current systems.

1.526 Sponsors themselves will be able to interact with WEFO online at a number of stages during the project lifecycle. Each sponsor will need to register with the Government Gateway and will be given a unique user ID and password which will be used when they need online access. Sponsors will then be able to interact with WEFO online to carry out a number of actions, for example:

- completing Expression of Interest forms;
- completing pre-populated claim forms;
- accessing the latest Business Plan for their project;
- submitting supporting documents; and
- viewing any Article¹⁸⁸ 13 or 17 reports.

1.527 Benefits to project sponsors include:

- the use of standard forms/documents for all Programme;
- an online claim form which will be pre-populated with data;
- being alerted via email when there is information on the website for their attention and action;
- having all information on the project held in one place; and

¹⁸⁸ In reference to the Implementing Regulation (EC) 1828/2006

- use of the Government Gateway, which provides a high level of security; all sponsors will be verified against 'known facts' held by WEFO.

1.528 Monitoring data will be collected at the point of submission of the pre-populated claim forms. This data constitutes a mandatory field in the claim. Therefore, monitoring data will need to be provided as part of the claim in order for it to be accepted by PPIMS as a valid claim. The Managing Authority also has the ability to withhold payment for those beneficiaries not providing monitoring data.

1.529 Additionally, WEFO will be able to access management information for reporting to the PMC and Commission more readily, with a clear audit trail being held in one place. The processes that are being designed will be compliant with EU requirements and will be supported by an IT system that will also conform to these same requirements.

COMPUTERISED EXCHANGE OF DATA

1.530 The Commission will establish a computer system to permit the secure exchange of data between the Commission and WEFO. WEFO will be involved in the development, and any major redevelopment, of that computer system. The computer system will be used to exchange information about the Operational Programme as set out in the Commission's Implementing Regulation and noted in Article 37(1)(g)(vi).

1.531 The Commission and WEFO will ensure that the Community and national provisions on the protection of personal data are complied with. Information exchanged shall be covered by professional confidentiality and be protected in the same way as similar information is protected by the national legislation of the United Kingdom.

1.532 In addition, information may not be used for any purpose other than that agreed between the WEFO and the Commission, unless WEFO has given their express consent, and provided that the provisions in force in Wales do not prohibit such use.

1.533 The computer system shall contain information of common interest to the Commission and WEFO. The content of the computer system for data exchange is detailed in Article 40 of the Implementing Regulation (EC) 1828/2006 and will be transmitted in the format given in the annexes of the Implementing Regulation. This will facilitate financial transactions and enable monitoring to be carried out.

1.534 Exchange of data and transactions shall be signed electronically in accordance with Article 37(1)(g)(vi) and the Implementation Regulation. The Commission shall specify the arrangements for use of electronic signatures.

1.535 A document shall be regarded as having been sent to the Commission once it has been signed by WEFO in the computer system. The Commission

acknowledges that the date of receipt by the Commission shall be the date on which WEFO sends the documents.

1.536 In cases of force majeure, particularly the malfunction of the computer system or the failure of a lasting connection, WEFO may forward information and documents to the Commission in hard copy.

1.537 The Commission will provide the technical specifications for the exchange of data and WEFO will develop its computer systems to meet those specifications.

1.538 WEFO will develop its computer systems to retain the data required for an audit of its accounts. WEFO will set up reliable accounting, monitoring and financial reporting computerised systems in accordance with the general principles of the management and control systems in Article 58.

1.539 WEFO has developed a new computer system PPIMS (Programme and Project Information Management System) and this will contain all the data relating to the financial transactions and monitoring information.

1.540 Extracting data from the PPIMS system will enable WEFO to exchange data with the Commission satisfying Article 66(3) and Article 37(1)(g)(vi). WEFO will utilise the standard Web-Application provided by the Commission's newly developed SFC2007 system. Accessing the Commission's web site will be via the Internet (https) using Internet Explorer and entering the data via the menu driven options and screens.

MONITORING AND EVALUATION

Monitoring and Evaluation Plan

1.541 Detailed plans for monitoring and evaluation will be set out in a Monitoring and Evaluation Plan, as detailed in Article 48(1). The plan will be published on the WEFO website and will be updated regularly. A summary of the Monitoring and Evaluation Plan is set out in paragraphs 6.96 to 6.120 and Annex P.

Monitoring

1.542 Article 66 states the Managing Authority and the Monitoring Committee will carry out the monitoring by reference to the financial indicators and the indicators referred to in Article 37(1)(c), and specified in the OP under the Priority Axes (Chapter 4).

1.543 The Operational Programme contains both high-level tracking indicators (also referred to as context indicators) and programme indicators (at Priority level and aggregated to programme level).

1.544 The high-level tracking indicators are derived from the short-listed Lisbon Structural Indicators and the Welsh Assembly Government's economic development strategy, W:AVE (see Strategy – Chapter 3). They are used to

monitor changes in the socio-economic context of the programme and will be updated where appropriate in the Annual Implementation Report.

1.545 Programme indicators relate to the effects of the intervention. They fall into three categories: output (activity); result; and impact, and are linked together in a logical chain. These indicators are set at Priority level and they have been selected carefully to reflect the breadth of individual priorities, while focusing on the key priority objectives and the cross cutting themes. Monitoring against these indicators will allow Programme progress to be assessed, thereby assisting the management of the Programme. Targets have been set against the Priority level indicators where meaningful targets can be set.

1.546 Projects will be required to report against all the relevant indicators and, where relevant, provide participant level information required under Article 66(2) of the General Regulation 1083/2006 and Annex XXIII of the Implementing Regulation 1828/2006. Projects will agree with the Managing Authority the timescales for reporting the monitoring data when the project is being developed.

Reporting

1.547 Output and result data will be regularly collected from project managers by the Managing Authority using its grants administration system, PPIMS, to give an up-to-date picture of forecast and actual achievements. These data will be analysed regularly by the Managing Authority and will be reported, as appropriate, to the PMC. These analyses will underpin the need, should it occur, to undertake evaluation under Article 48(3) – see 6.111. Progress for the impact indicators will be assessed through evaluation and be informed by the output and result data.

1.548 Article 9(3) sets targets for expenditure for specified priorities. Annex IV contains categories of expenditure to help ensure spend towards those targets. These categories will be used to report on how the programme is targeting assistance at the EU priorities of creating jobs, including meeting the objectives of the Integrated Guidelines for Growth and Jobs (2005 to 2008).

1.549 The Managing Authority will make reports available to the PMC for it to be able to satisfy itself as to the effectiveness and quality of the implementation of all the Operational Programme.

Annual Implementation Reports

1.550 In accordance with Article 67 the Managing Authority will submit electronically an Annual Implementation Report to the Commission within six months of the end of each full calendar year of implementation. The Report will be considered and approved by the PMC and its subcommittees where appropriate; in accordance with Article 65(d). The first report will be due by 30 June 2008.

1.551 The Annual Implementation Report is essential for reviewing Programme progress. In accordance with Article 67 it will contain details of:

- progress in implementing the Operational Programme and its Priorities together with a quantification of the indicators referred to in Article 37(1)(c) at Priority level;
- the financial implementation of the Operational Programme, detailing for each Priority:
 - the expenditure paid out by the beneficiaries included in applications for payment sent to the Managing Authority and the corresponding public contribution;
 - the total payments received from the Commission and quantification of the financial indicators referred to in Article 66(2); and
 - the expenditure paid out by the body responsible for making payments to the beneficiaries;
- for information purposes only, the indicative breakdown of the allocation of Funds by categories, in accordance with the implementation rules adopted by the Commission referred to in Article 103(3);
- the steps taken by the Managing Authority and the PMC to ensure the quality and effectiveness of implementation. This includes monitoring and evaluation, and arrangements to collect data, details of any major problems encountered in implementing the Operational Programme and the action taken in response and the use made of Technical Assistance;
- the measures taken to provide information on and publicise the Operational Programme;
- details of any problems relating to compliance with Community law which have been encountered in the implementation of the Operational Programme and the measures taken to deal with them;
- the progress and financing of any major projects;
- information on the contribution to the Regions for Economic Change initiative;
- the use made of Technical Assistance;
- the use made of assistance released following financial corrections required in connection with individual or systemic irregularities in the implementation of the Programme, in accordance with Article 98(2); and
- cases where a substantial modification has been detected under Article 57.

Annual Review

1.552 On receiving an Annual Implementation Report as noted above, the Commission and the Managing Authority will examine the progress made in implementing the Operational Programme including the main results achieved over the previous year, financial implementation, and any other issues.

1.553 The Commission may wish to comment on the implementation of the Programme to the Managing Authority, which will report the comments to the PMC and its subcommittees where appropriate, and provide a response to include action taken in response.

Final Implementation Report

1.554 A Final Implementation Report, as required under Article 67(1), will be submitted to the Commission by 31 March 2017. The same content and procedure (submission to the Commission by the Managing Authority after examination and approval by the Programme Monitoring Committee) as for Annual Implementation Reports apply to this final report. However, for the Final Implementation Report on an Operational Programme, the time limit shall be a maximum of five months from the date of receipt of an admissible report. If the Commission does not respond within the time limit, the report shall be deemed to be accepted.

Evaluation

1.555 There are three key areas for evaluation of the Operational Programme. These are: Programme level; strategic framework; and project level.

Programme level Evaluation

1.556 The Managing Authority will ensure (Articles 47 and 48) that evaluations of the Operational Programme are carried out through a series of 'on-going evaluations', responding to policy and programming needs. These evaluations will be linked to programme monitoring, in particular where programme monitoring reveals a significant departure from the initial goals. Evaluation will also be undertaken where it is intended to substantially alter the design of the programme or where there are any notable changes in the external environment.

1.557 Programme level evaluations will consider the following issues: Relevance; Effectiveness; Efficiency; Utility; Sustainability; and Synergy. In accordance with Article 48(3) the results of these evaluations will be sent to the PMC and the Commission. Annex P contains a summary of the indicative Programme level evaluations.

1.558 The Ex-Ante Evaluations (Article 48) for the Convergence Programme (ERDF and ESF) were undertaken to ensure that resources are allocated optimally and to maximise the quality of plans for programme implementation. It was an interactive process, with the consultants (appointed in accordance with the public sector procurement requirements) commenting on early drafts

of programme documents and revisions being made in light of these comments.

1.559 The Ex-Post Evaluation, Article 49(3), will be undertaken by the European Commission in close co-operation with the Managing Authority.

Strategic Framework and Project Level Evaluation

1.560 The programme level evaluation activity will be complemented by Strategic Framework and project level evaluation. Reporting against the monitoring indicators provides part of the assessment of project progress and impact. For this reason, all project sponsors will be required to undertake or commission evaluations of their projects. The intensity of the evaluation activity will be proportionate to the size or risk of the project and will be agreed with the project at the development stage. Costs associated with undertaking evaluation will be deemed an eligible cost. All project sponsors that are awarded £2 million grant or more (ESF or ERDF) for a single project and all projects involved in implementing ERDF supported innovative or experimental actions, will be required to have the project externally evaluated by independent contractors.

1.561 Evaluation of the effectiveness of Strategic Framework strategies will be essential to inform any framework reviews undertaken during the programme period.

1.562 As a result of these enhanced requirements guidance will be developed to assist with the development of evaluation plans and the selection of appropriate evaluation methods at the project development stage. Throughout the programming period the Managing Authority will ensure that the quality of a sample of project level evaluations is assessed to ensure that evaluations are of a suitably robust quality.

Managing Monitoring and Evaluation

1.563 External evaluations will be carried out by experts or bodies, internal (for example the Office of the Chief Social Research Officer, Economic Advice Division or Statistical Directorate) or external, functionally independent of the Managing, Certifying and Audit Authorities.

1.564 The Managing Authority will have overall responsibility for programme-level monitoring and evaluation and for ensuring that advice and guidance and assistance on monitoring and evaluation of Strategic Frameworks and projects is provided.

1.565 Evaluation will be undertaken in the spirit of partnership so the work will be overseen by an Evaluation Advisory Group (see 6.30–6.31: Evaluation of the Operational Programme).

1.566 The Monitoring and Evaluation Plan will be presented to the Programme Monitoring Committee for their consideration. Final reports of all research undertaken and commissioned to fulfil the requirements of the plan

will be presented to PMC and its subcommittees where appropriate, and to the Commission.

Measures for Monitoring the Programme in relation to the Strategic Environmental Assessment

1.567 The Managing Authority shall, in accordance with Article 10 of (EC) Directive 2001/42/EC, monitor the significant environmental effects of the Convergence Programme in order to identify unforeseen adverse effects, and to be able to undertake appropriate remedial action. This monitoring will be undertaken at three levels.

1.568 Firstly, the Strategic Environmental Assessment (SEA) has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the Convergence area. As noted in the SEA, it is unlikely that any significant adverse effect identified by these indicators would be the result of activities supported by the Convergence Programme. However, the Managing Authority will monitor against these indicators, where appropriate, to determine changes that occur and potential relationships with programme activities. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports (AIRs).

1.569 Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme (which is described in detail in Chapter 5) will be assessed through the relevant Priority level indicators. Progress against the Priority level indicators will also be reported in the AIRs. Furthermore, progress against these indicators will be discussed at meetings of the Programme Monitoring Committee.

1.570 Thirdly, the SEA proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects that have significant negative effects that can not be mitigated for and outweigh positive benefits will not be supported by the Programme. Procedures will be in place to detect any project with a potential negative effect on Natura 2000 sites and other sites designated for nature conservation. These would be scrutinized by WEFO in consultation with the Competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

PUBLICITY AND INFORMATION

1.571 Information and publicity measures to be carried out by the Member States and Managing Authorities concerning assistance from the Structural

Funds shall conform to the provisions of Article 69 and any rules adopted under it, and Chapter II of the Implementing Regulations.

1.572 The Implementation Regulations put forward a common methodology and approach for persons responsible for carrying out information and publicity measures, which takes account of the specific situation of each Member State. The Managing Authority responsible for implementing the programme will be responsible for publicity on the spot. Publicity will be undertaken in co-operation with the European Commission, which will be informed of measures taken for this purpose.

1.573 The information and publicity measures put in place will be presented in a structured form ('Communication Plan'), clearly setting out the overall aims and target groups; a programme of information and publicity activity; indicative budget and methods of delivery; the responsibility for delivering the activity and ways in which the activity will be monitored and evaluated. The Communication Plan will be published on the WEFO website following the European Commission's assessment of the Plan. The Communication Plan will be submitted to the Commission for examination within four months of the Operational Programme being adopted.

1.574 Communication activity will explain the funding opportunities offered by the Operational Programme, together with raising awareness of how they will benefit and provide added value for West Wales and the Valleys, and the role of the EU in regional development in Wales. The Managing Authority will ensure transparency in the assistance provided by the funds in its communication activity.

1.575 The Managing Authority will ensure that adequate publicity guidelines are available for project sponsors and that project sponsors meet the requirements to publicise the funding received from the Structural Funds programme placed on them by the Commission Rules (Article 69(1) and the Implementation Regulations).

1.576 The amounts set aside to support the Managing Authority's work on the dissemination of information, publicity and communications for information and publicity are specified in the Technical Assistance Priority.

1.577 The Managing Authority will designate one or more persons to be responsible for the implementation of information and publicity measures, and will inform the Commission of those so designated.

CHAPTER 7 FINANCIAL PROVISIONS

1.578 The Community Strategic Guidelines emphasise the importance of concentrating resources both thematically and geographically on the investments that are fundamental for increasing long-term competitiveness, job creation and sustainable development. In deciding how best to allocate resources to support the Convergence programme, a range of issues have been considered. Amongst these are:

- the priorities of the programme and how the Structural Funds can best contribute to addressing these in ways which add value to current strategies and actions;
- the requirement to ' earmark' resources against priorities which support the Lisbon agenda;
- lessons learned from previous experience of the effectiveness of the Objective One Programme 2000-2006;
- the responses from the public consultation on the draft Operational Programme;
- the ability to absorb available resources within the N+2 timeframe required under the regulations;
- the availability of match funding;
- state aid requirements, and
- the interface with other European programmes such as the European Agricultural Fund for Development and the European Fisheries Fund.

1.579 The Welsh Assembly Government's policies for economic development as set out in *W:AVE* are very much in line with the Lisbon agenda. This calls for an increase in resources in areas such as R&D and innovation, ICT, sustainable use of resources, skills and employment and some aspects of strategic infrastructure. At the same time the Welsh Assembly Government recognises that investments linked to aspects of urban and rural regeneration, community economic development, environmental protection and risk prevention, waste management, tourism, and culture remain important drivers for jobs and growth, even though they will not contribute directly to the Lisbon earmarking targets as defined in the General Regulation.

1.580 The Financial Tables below show how programme spend will be allocated across the various priorities. In preparing these tables, the Welsh Assembly Government has taken account of the Integrated Guidelines for Jobs and Growth, as well as the Community Strategic Guidelines, both of which emphasise the importance of focussing spend on areas that will drive forward a competitive, knowledge driven economy. The Welsh Assembly

Government has also taken account of the European Commission's assessment of the UK's National Reform Programme as set out in the 2006 Annual Progress Report on Growth and Jobs: "Time to move up a gear". This concluded that the UK needed to give more attention to the following priorities:

- boosting R&D and innovation;
- improving transport infrastructure;
- addressing skills challenges; and
- improving employment prospects for the most disadvantaged.

1.581 In overall terms, compared to the current Objective One Programme, there is a shift in resources towards areas of expenditure that directly support the Lisbon agenda – this is at the very heart of the vision of the programme to continue the transformation of the West Wales and the Valleys' economy. Looking at each Priority in turn:

- **Priority 1: Building the Knowledge Based Economy.** This Priority seeks to promote a high value-added economy by improving knowledge and innovation for growth, fostering research and development, innovation and technology and its commercial exploitation and increasing access to and take up of ICT. The Analysis (Chapter 2) in this Programme shows that West Wales and the Valleys has particularly low output per head reflecting a complex mix of industrial and occupational factors. A relatively low proportion of GDP in Wales is allocated to research and development activities, with this deficiency particularly material in the business sector. Given the importance of R&D for future growth and development, and in line with the Lisbon agenda, this Programme proposes a material increase in resources allocated to these activities compared to the current programme, with a range of activities set out in Chapter 4 including expanding the key interface between education and industry and developing our capacity to respond to the opportunities of ICT.
- **Priority 2: Improving Business Competitiveness.** This Priority seeks to strengthen the economy in terms of increasing the size and widening the range of the business by tackling market failures in relation to business advice, information and finance. There is evidence of an entrepreneurship gap in West Wales and the Valleys, albeit that the data are not robust. It will be important to continue to tackle this, as well as assisting businesses of all sizes to compete in the competitive global market. A range of business advice and financial support measures will be applied to take forward this Priority, with significant resources in the priority reflecting its significance. There is some reduction in the provision of resources to this activity when compared to the last programme. This reflects a judgement that both additional resources must be applied to the Lisbon-crucial activities of Priority One, together with a recognition that there is scope to rationalise the quantity of the

provision of business advice without having a material adverse affect on the overall quality of the advice provided, while seeking to better direct the outputs achieved.

- **Priority 3: Developing Strategic Infrastructure for a modern economy.** This Priority seeks to equip the region with the physical infrastructure necessary for the development of a modern and competitive economy. One of the key determinants of relatively low output per head in West Wales and the Valleys derives from an inability to benefit from strong agglomeration effects, due to Welsh town and cities being relatively small and much of West Wales and the Valleys being sparsely populated and distant from major centres. This is shown clearly in the analysis. The Priority seeks to make strategic transport investments that will increase accessibility within the region, to enable individuals to access employment opportunities and also to provide businesses with access to markets elsewhere in the UK and mainland Europe. The main focus is on developing and implementing sustainable integrated transport solutions, strategic investments in the TEN-T transport network, the provision of strategic sites and premises and developing a very limited number of educational institutions able to have a direct and material economic impact. Evidence available on agglomeration effects has strengthened since the Objective 1 programme was developed, and it has been clear that such transport investments that have been undertaken in the current programme have been particularly effective. The proposals therefore suggest there should be a shift of emphasis in spending towards Transport with that transport focused on Lisbon friendly and sustainable transport solutions.
- **Priority 4: Creating an Attractive Business Environment.** This Priority seeks to promote sustainable business growth and new business opportunities in relation to future environmental challenges and opportunities. The analysis section identifies the clear need for Wales to reduce its greenhouse gas emissions and to materially improve its performance in relation to management. Much of the environment of West Wales and the Valleys is of high environmental quality with attractive coastline, mountains and rivers. The main focus of activity within the Priority is to develop renewable energies, reduce waste and help mitigate some of the consequences of climate change, and also to take advantage of the rich opportunities that exist for economic activity dependent on the existence and maintenance of a high quality environment. In the light of these considerations this Priority has been allocated a very substantial increase compared to the allocation in the last programme, with a shift towards renewable energy activities.
- **Priority 5: Building Sustainable Communities.** This Priority seeks to support integrated regeneration strategies and approaches to the development of local economies in which communities can flourish and sustain themselves. The Analysis within the programme demonstrates the wide range of social, economic and environmental disparities faced within communities across Wales. This Priority seeks to achieve vibrant,

sustainable communities and creating a strong sense of 'place' increasingly identified as an important factor in economic development and regeneration. Much of this activity will be focused on physical regeneration, including the renewal of town centres, with some further support provided for community economic development. In keeping with the stronger Lisbon focus of the programme spending in the area of regeneration and community economic development will be reduced compared to the current programme and refocused to reflect the importance of interventions which more directly contribute to jobs and growth.

- 7.5 In 2010, Economic Renewal: a New Direction outlined a new role for the Welsh Assembly Government in supporting the economy. This new approach was consistent with the aims Europe 2020, which built on the achievements and lessons learnt from Lisbon strategy.
- 7.6 The allocation of resources across the Priorities of the Programme was revised to reflect the new policy priorities. The resources available for Priority 2 were reduced, reflecting the move from a grant to an investment culture, and the allocation for Priority 3 was increased, in line with the greater emphasis in the ERP on supporting economic infrastructure. The budget for Priority 5 was also increased through a virement of resources from the Technical Assistance Priority.

Table 22: West Wales and the Valleys ERDF Convergence Programme 2007-2013

Operation Programme Reference (CCI Number): 2007UK161PO002

Priority axes by source of funding (in euros millions)

	Community Funding	National Counterpart	Indicative breakdown of the national counterpart		Total Funding	Co-Financing rate	For information	
			National Funding (c)	Public Funding (d)			EIB contribution	Other Funding
	(a)	(b) = (c) + (d)	National Funding (c)	Private Funding (d)	(e) = (a) + (d)	(f) = (a) / (e)		
P1	Priority 1 R&D, Innovation and ICT	€313,878,019.00	€244,709,467.00	€80,434,302.00	€558,587,486.00	56.19%	€11,683,345.00	€0
P2	Priority 2 Enterprise and Business Finance	€144,778,000.00	€130,072,990.00	€68,876,850.00	€274,850,990.00	52.68%	€40,786,767.00	€0
P3	Priority 3 – Transport and Strategic Infrastructure	€389,823,802.00	€307,810,005.00	€10,426,284.00	€697,633,807.00	55.88%	€0	€0
P4	Priority 4 - Energy and the Environment	€229,898,349.00	€156,402,059.00	€32,439,198.00	€386,300,408.00	59.51%	€0	€0
P5	Priority 5 - Building Sustainable Communities	€159,000,019.00	€79,195,723.00	€5,266,283.00	€238,195,742.00	66.75%	€0	€0
P6	Priority 6 Technical assistance	€13,000,000.00	€20,259,046.00	€0	€20,059,046.00	64.81%		
	TOTAL	€1,250,378,189.00	€925,249,290.00	€197,442,917.00	€2,175,627,479.00	57.47%	€52,470,112	€0

Table 23: West Wales and the Valleys ERDF Convergence Programme 2007-2013

Operation Programme Reference (CCI Number): 2007UK161PO002

Year by source for the programme (in euros)

	Community Funding
2007	€ 168,190,816.00
2008	€ 171,554,632.00
2009	€ 174,985,725.00
2010	€ 178,485,440.00
2011	€ 182,055,149.00
2012	€ 185,696,251.00
2013	€ 189,410,176.00
Grand Total 2007-2013	€ 1,250,378,189.00

Table 24: Indicative allocations by category of intervention¹⁸⁹

Table 1 CODES FOR THE PRIORITY THEME DIMENSION		
Code	Description	Community Amount
	Research and technological development (R&TD), innovation and entrepreneurship	
01	R&TD activities in research centres	31,387,802
02	R&TD infrastructure (including physical plant, instrumentation and high-speed computer networks linking research centres) and centres of competence in specific technology	23,000,000
03	Technology transfer and improvement of cooperation networks ...	78,469,505
04	Assistance to R&TD, particularly in SMEs (including access to R&TD services in research centres)	47,081,703
05	Advanced support services for firms and groups of firms	67,519,844
06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes (...)	9,195,934
07	Investment in firms directly linked to research and innovation (...)	69,053,164
09	Other measures to stimulate research and innovation and entrepreneurship in SMEs	109,340,536
	Information society	
10	Telephone Infrastructures (including broadband networks)	28,000,000
11	Information and communication technologies (...)	2,110,241
13	Services and applications for citizens (e-health, e-government, e-learning, e-inclusion, etc.)	15,693,901
14	Services and applications for SMEs (e-commerce, education and training, networking, etc.)	19,081,703
	Transport	
16	Railways	76,863,617
21	Motorways (TEN-T)	90,082,380
23	Regional/local Roads	10,000,000
24	Cycle tracks	3,308,238
26	Multimodal transport	99,397,713
30	Ports	0
	Energy	
33	Electricity	2,298,983
39	Renewable energy: wind	11,494,917
40	Renewable energy: solar	4,597,967
41	Renewable energy: biomass	6,896,950
42	Renewable energy: hydroelectric, geothermal and other	13,793,901
43	Energy efficiency, co-generation, energy management	39,082,719
	Environmental protection and risk prevention	
44	Management of household and industrial waste	16,092,884
49	Mitigation and adaption to climate change	34,484,755
50	Rehabilitation of industrial sites and contaminated land	13,232,952
52	Promotion of clean urban transport	33,007,094
54	Other measures to preserve the environment and prevent risks	16,092,884
	Tourism	
55	Promotion of natural assets	22,989,835
56	Protection and development of natural heritage	52,876,620
	Urban and rural regeneration	
61	Integrated projects for urban and rural regeneration	171,000,019
	Investment in social infrastructure	
75	Education infrastructure	19,849,428
85	Preparation, implementation, monitoring and inspection	6,500,000
86	Evaluation and studies; information and communication	6,500,000

¹⁸⁹ These categories of expenditure are indicative and intended for information only

Total		1,250,378,189
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Table 2 CODES FOR THE FORM OF FINANCE DIMENSION		
Code	Description	Community Amount
01	Non-repayable aid	1,088,726,189
03	Venture capital (participation, venture-capital fund)	161,652,000
Total		1,250,378,189

Table 3 CODES FOR THE TERRITORIAL DIMENSION		
Code	Description	Community Amount
00	Not applicable	1,250,378,189
Total		1,250,378,189

Table 4 CODES FOR THE ECONOMIC ACTIVITY DIMENSION		
Code	Description	Community Amount
00	Not applicable	1,250,378,189
Total		1,250,378,189

Table 5 CODES FOR THE LOCATION DIMENSION		
Code	Description	
UKL1	WEST WALES AND THE VALLEYS	